

TENTH ANNUAL REPORT OF THE PRESIDENT OF
THE UNITED STATES ON THE TRADE
AGREEMENTS PROGRAM

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

TENTH ANNUAL REPORT OF THE PRESIDENT OF THE
UNITED STATES ON THE TRADE AGREEMENTS PRO-
GRAM FOR 1965, AS REQUIRED BY SECTION 402(a) OF
THE TRADE EXPANSION ACT OF 1962



SEPTEMBER 20, 1966.—Referred to the Committee on Ways and Means and
ordered to be printed with accompanying papers and illustrations

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THE UNITED STATES ON THE TRADE
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LETTER OF TRANSMITTAL

THE WHITE HOUSE, September 20, 1966.

To the Congress of the United States:

This is the 10th annual report on the trade agreements program, as required by section 402(a) of the Trade Expansion Act of 1962. It covers calendar year 1965.

World trade in 1965 surpassed all previous levels, enriching the lives of peoples around the globe. Record levels of U.S. foreign trade contributed greatly to this advance, and the American people shared fully in its benefits.

However, the successes of 1965 also served to dramatize the vast unrealized potential of the world market and the importance of moving forward with the Kennedy round of tariff negotiations, the great multilateral endeavor to generate more rapid growth in trade. Recently, the pace of these talks has intensified. The major participants have shown renewed determination to conclude an agreement. The United States will continue to exert every effort to assure that these negotiations yield extensive reductions in restraints on trade in all classes of goods, including agricultural products.

The steady growth and freer flow of world trade are essential to full prosperity at home, economic growth and stability in the industrialized countries, and progress in the developing world. We shall do everything in our power to build in future years on the substantial progress in these directions achieved in 1965.

LYNDON B. JOHNSON.

AUTHORITY

TRADE EXPANSION ACT, SECTION 402(a)

The President shall submit to the Congress an annual report on the trade agreements program and on tariff adjustment and other adjustment assistance under this Act. Such report shall include information regarding new negotiations, changes made in duties and other import restrictions of the United States, reciprocal concessions obtained, changes in trade agreements in order to effectuate more fully the purposes of the trade agreements program (including the incorporation therein of escape clauses), the results of action taken to obtain removal of foreign trade restrictions (including discriminatory restrictions) against United States exports, remaining restrictions, and the measures available to seek their removal in accordance with the purposes of this Act, and other information relating to the trade agreements program and to the agreements entered into thereunder.

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TENTH ANNUAL REPORT OF THE PRESIDENT OF THE UNITED STATES ON THE TRADE AGREEMENTS PROGRAM FOR 1965

I. WORLD TRADE IN 1965

A. DEVELOPMENTS IN INTERNATIONAL TRADE

Free world trade reached another record high in 1965. Exports increased almost \$13 billion over the level of 1964 to a value of \$165 billion. Although less than the record 13 percent advance in world trade in 1964, the rise last year represented a sizable 8-percent gain. Exports from the developed countries rose 9 percent, while the value of shipments from the less developed countries expanded by 6 percent.

Generally prosperous conditions in the world economy continued to stimulate the strong advance in world trade. While Japan and some of the European countries—particularly France and Italy—experienced a relatively slow economic expansion in 1965, most of the developed countries continued to be flourishing markets. Demand for foreign products in the United States and the Federal Republic of Germany was significantly larger last year. In the developing countries on the other hand, growth in demand was somewhat less in 1965 than it had been in 1964.

Western European exports expanded to \$80 billion in 1965, an increase of 11 percent over the previous year, and accounted for more than three-fifths of the 1965 rise in world exports. Shipments from the member countries of the European Economic Community (EEC) rose by 13 percent in 1965, a gain of \$5.3 billion, of which more than two-fifths was in intra-EEC shipments. Italy, Belgium-Luxembourg, and France reported the largest rates of expansion among the Common Market countries, largely as a result of their exports to the exceptionally thriving West German market.

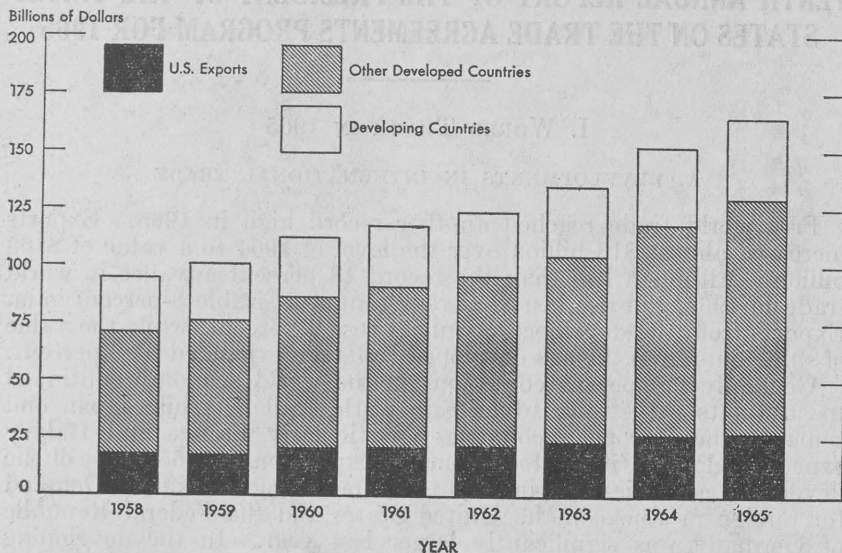
The rising demand for imports in West Germany and the United States was primarily responsible for a 7-percent increase in British exports to \$14 billion in 1965. Significant gains in exports were also recorded by most of the other countries of the European Free Trade Association (EFTA). As a result, exports of EFTA, including Finland, increased to \$28 billion, 9 percent over 1964.

Western European countries, taking 52 percent of total free world imports, increased their foreign purchases to \$90 billion in 1965. Imports of the Common Market countries, accounting for \$49 billion of the total Western European purchases, rose by 9 percent. However, of the \$4.1 billion gain in EEC imports, over half represented intra-EEC purchases.

Imports into EFTA, including Finland, reached \$34 billion in 1965. The lower rate of gain in EFTA purchases last year, compared to 1964, reflected a sharp decline in the growth of imports into the United Kingdom. Despite the reduction in the British surcharge from 15 to

10 percent in April of last year, purchases by the United Kingdom rose only 1 percent in that year.

Growth of Free-World Exports



Source: IMF, IFS, May 1966

Japanese exports increased by more than one-fourth in 1965 to \$8.5 billion, to lead the expansion in world shipments of the developed countries. The United States, Australia, and Liberia were the principal markets for Japanese goods. Japanese sales to the United States advanced to \$2.5 billion and to Australia increased to \$319 million, a gain of about one-third to each country. Exports from Japan to Liberia, consisting primarily of ships under that country's registry, almost doubled, rising to \$364 million. Imports into Japan, on the other hand, increased by 3 percent, compared to an 18-percent expansion in the previous year.

Canadian exports increased 5 percent in 1965 to a record high of \$8.5 billion. Large gains in Canadian shipments of automobiles and metals in 1965 were offset by a one-fifth decline in sales of wheat, primarily to the Soviet Union. Wood, wood pulp, and newsprint shipments, which accounted for about one-fourth of Canada's exports, advanced 5 percent in 1965, compared to a 10-percent gain in the previous year. Canadian imports reached a new high of \$9 billion in 1965, an increase of 15 percent over 1964. As in previous years, the United States continued to be Canada's principal customer and supplier. The United States took 58 percent of Canadian exports and supplied 70 percent of its imports.

Shipments from the developing countries rose in value by \$2 billion to \$35 billion in 1965, but continued to lag behind the overall growth in free world exports. As a result, the developing countries' share in world trade declined from 21.9 percent in 1964 to 21.4 percent in 1965.

The trade of the developed countries over the past several years has advanced more rapidly than that of the less-developed nations. From 1960 to 1965, the average annual rate of growth of exports of the developed countries was 8 percent, while for the less-developed countries it was 6 percent.

As in previous years, there was considerable variation in the exports of the developing countries in 1965. The petroleum exporters, Saudi Arabia, Libya, and Nigeria, experienced the largest gains. Other developing countries registering increases in their foreign shipments of more than 8 percent during 1965 included Malaysia, Pakistan, the United Arab Republic, Brazil, and Mexico. Reduced shipments in 1965 were recorded by a number of countries, including Peru, Syria, Tunisia, and India.

Imports into the developing countries rose by 4 percent in 1965, less than half the 1964 gain. Their imports of \$36 billion represented 20.6 percent of total free world imports compared to a 1964 share of 21.5 percent. Rising foreign debt servicing burdens, lower export prices for many primary commodities plus other balance of payments pressures continued to limit the foreign exchange available to these countries for making purchases abroad.

As in the case of exports, there was extensive variation in the imports of the developing nations in 1965. Peru, Iran, and the Republic of China registered the largest increases, in all cases over 25 percent. Other developing countries experiencing a gain of at least 8 percent in their foreign purchases in 1965 included Venezuela, Argentina, Nigeria, and Libya. Moderate advances of 5 percent were registered by two important U.S. markets, Mexico and India. Brazil, Colombia, and the United Arab Republic recorded significantly lower imports than in 1964, with the drop in Colombian purchases reaching about one-fourth. Other countries showing declines in imports included Syria, Burma, and Ceylon.

B. U.S. FOREIGN TRADE IN 1965

U.S. foreign trade climbed to another record value in 1965, but the rate of expansion of imports sharply exceeded that for exports. Exports, excluding military grant-aid, rose almost 4 percent above the 1964 level to \$26.6 billion. Imports in 1965 increased by 14½ percent over the previous year reaching \$21.4 billion. As a result, the export surplus for 1965 fell from its high 1964 value by \$1.8 billion to \$5.2 billion.

The lower rate of expansion of U.S. exports last year, compared to 1964, reflected our own unprecedented domestic requirements which limited supplies of certain products for export; the effects of the dockworkers' strike which, in the beginning of 1965, paralyzed shipping activities in Atlantic and gulf ports for several weeks; and a slower growth in demand from abroad as a result of increased competition for markets for manufactures, and larger available supplies of foreign cotton.

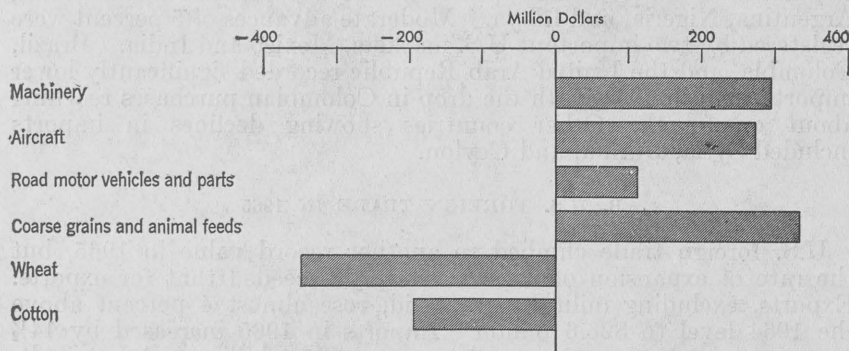
Nonagricultural exports, rising by 5 percent, increased by almost \$1 billion in 1965. Of this gain, over four-fifths reflected increased shipments of capital equipment, with the increase largely concentrated in exports of nonelectrical machinery and transport equipment.

The 6-percent growth in nonelectrical machinery sales, however, was a slowdown from the average annual rate of increase of 10 percent from 1960-64. This resulted in part from the slower rate of capital investment in some of our leading Western European markets and increased competition from a number of our trading partners.

The 13 percent gain in the shipments of transport equipment last year reflected increased sales of aircraft and road motor vehicles. Rising demand for both civilian and military aircraft caused these exports to expand by \$274 million in 1965. This represented a two-thirds gain over 1964 in our sales of civilian aircraft and a more than one-third rise in military planes. Exports of road motor vehicles advanced by nearly 10 percent. The duty-free entry arrangement under the 1965 United States-Canadian automobile agreement and a strike in Canadian plants in the early part of the year stimulated shipments to that country.

Exports of some technologically advanced types of capital equipment expanded sharply in 1965. Sales of scientific instruments, pumping equipment, and materials handling machinery all rose by at least one-quarter over 1964, with rates of increase accelerating during the year. Metalworking machine exports, on the other hand, dropped by one-fifth as the growing domestic demand offered a more immediate market. Rising competition abroad also limited U.S. sales.

Principal Commodity Changes in U.S. Exports From 1964 to 1965



Increases in the prices and quantities of copper shipped abroad led to a 10-percent rise in our exports of non-ferrous metals. Exports of textile products other than clothing fell by nearly one-tenth from their record 1964 value in part due to increased foreign restrictions and in part to rising domestic civilian and military demand. Sales of clothing showed no change.

A decrease in AID shipments, particularly to Pakistan, and a falloff in our sales to the United Kingdom resulted in a small decline in our exports of steel. In 1964, U.S. exports of steel to the United Kingdom had risen sharply due to a steel strike in that country. A 19-percent drop in iron and steel scrap exports stemmed largely from reduced sales to Japan, our principal customer, where demand for steel scrap declined.

Sharply reduced shipments of two key agricultural commodities, namely cotton and wheat, both affected by unusual conditions in 1965,

kept agricultural exports 2 percent below their peak 1964 total. Shipments of feed grains, soybeans, fats and oils, and fruits substantially exceeded 1964 levels and nearly compensated for the cotton and wheat declines.

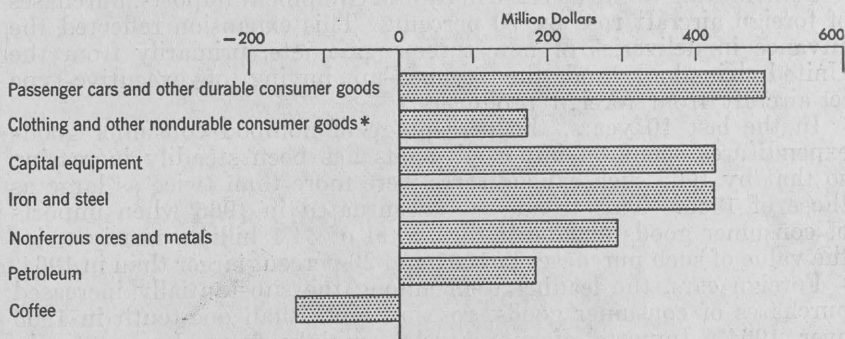
The drop in our wheat and flour exports from \$1,533 million in 1964 to \$1,185 million in 1965 reflected the absence of extraordinary sales to the Eastern European areas that existed in 1964, and a drop in wheat shipments to developing countries as a result of the dockworkers' strike.

Cotton sales were lower in 1965 by \$196 million, or 29 percent. Overseas buyers, anticipating that the new U.S. cotton legislation to be effective in August would result in lower U.S. export prices, drew on inventory stocks and purchased larger quantities elsewhere during the first half year.

In contrast, some of our major agricultural exports registered a significant expansion last year. The strong demand from the growing livestock industry in Western Europe and Japan resulted in a \$335 million increase in sales of U.S. coarse grains and animal feeds to these countries. Exports of U.S. soybeans and fats and oils also continued strong, rising by 15 percent, a gain of \$140 million for these commodities. Rice shipments were one-fifth greater in value.

The upward trend in imports dating from 1962 accelerated last year with a 14½ percent increase in the total. The advance of \$2.7 billion over 1964 primarily reflected increased demand of the U.S. economy, although there were special factors which also contributed to the expansion. The largest gains were in imports of industrial materials, capital equipment, and consumer goods.

Principal Commodity Changes in U.S. Imports From 1964 to 1965



* Excludes food

With U.S. industrial production rising by 8 percent in 1965 over 1964, there was a growing demand for many types of foreign industrial materials such as petroleum, iron and steel mill products, and nonferrous metals. Petroleum purchases rose by \$183 million or 10 percent. Most of this expansion was in residual fuel oil for which the import quota was increased to meet rising demands for both energy and heat requirements in the Atlantic seaboard States.

Iron and steel mill imports jumped in 1965, increasing by nearly three-fifths to \$1.1 billion. Except for January, a month which was affected by the longshoremen's strike, imports of iron and steel mill

products were significantly higher in each month of 1965 than in the corresponding month of the preceding year. A strong element in last year's purchases, of course, was the extraordinary demand arising from hedge buying because of the threat of a steelworkers' strike in the United States. This stockbuilding, however, accounted only in part for the large imports, which have been rising each year since 1961. Japanese and West European producers have for some time offered growing competition to U.S. products.

Imports of steel plates and sheets accounted for the major part of the 1965 increase. Structural steel also assumed greater importance rising by more than two-fifths over the 1964 level. Japan accounted for 40 percent of total steel deliveries, far outranking Belgium-Luxembourg and West Germany, the next two leading suppliers.

Imports of nonferrous metals rose by nearly one-fourth, partly due to price increases in copper and tin, but also because of the expanding requirements of U.S. industry. Aluminum purchases climbed during the last half of 1965, increasing by 16 percent over those in the first half and by nearly 50 percent above the last half of 1964.

A sharp increase in U.S. imports of capital equipment reflected to a large degree the difficulty domestic producers were having in meeting current and short-term requirements of their customers. Unfilled orders for durable goods increased every month in 1965; at the end of the year, they were at their highest level in the past 8 years.

Machinery imports rose by \$329 million or more than one-third, with most major types showing increases of 20 percent or more. Particularly large gains were recorded for imports of engines and agricultural machinery. The textile industry, responding to a growing demand for consumer as well as military products, stepped up its imports of textile machinery from abroad to help expand its facilities.

Contributing to the increase in capital equipment imports, purchases of foreign aircraft rose by 70 percent. This expansion reflected the advance in deliveries of new three-engine jets, primarily from the United Kingdom, and the stepped-up buying of executive-type jet aircraft from foreign producers.

In the last 10 years, the percentage of nonfood consumer goods expenditures spent on imported goods has been steadily increasing so that by 1965 such expenditures were more than twice as large as those of 1956. This trend was accentuated in 1965 when imports of consumer goods expanded to a total of \$4.1 billion, nearly twice the value of such purchases in 1961 and 20 percent larger than in 1964.

Foreign cars, the leading item among the substantially increased purchases of consumer goods, rose by more than one-tenth in 1965 over 1964. Imports of motorcycles, mainly from Japan, nearly doubled to a total of \$134 million. Other imports of consumer goods which registered significant gains were TV receivers, transistor radios, watches, gem diamonds, and clothing.

In 1965, there was a decline in the value of food imports due particularly to lower prices. Coffee imports fell by 12 percent in value, and 7 percent in quantity. Cocoa imports fell by 8 percent in value but increased by one-third in quantity. Sugar imports advanced by almost one-tenth in volume, but declined by 3 percent in value.

Nearly offsetting these declines in the value of our food purchases were increased imports of fish, feeder livestock, and fruits, principally

bananas. Imports of cattle from Mexico and Canada, to be fattened in the United States before slaughtering, more than doubled in 1965.

Of the \$857 million increase in total exports in 1965, about three-fourths moved to Canada, representing a gain of 15 percent. Excluding military grant-aid, exports to Western Europe expanded by 3 percent, while to the rest of the world, exports changed little, as gains to some were balanced by losses to others.

Most of the \$2.7 billion increase in U.S. imports in 1965 came from Western Europe, Japan, and Canada. Arrivals from Asia, other than Japan, the American Republics, and Oceania also advanced in 1965. In contrast, imports from Africa showed a decrease.

The strong growth of the Canadian economy in 1965—our fastest growing industrial market last year—stimulated our trade with that region. U.S. goods accounted for 70 percent of the country's total imports in 1965, a slight increase over 1964, and Canadian products were also in increasing demand in this country.

The 1965 automobile agreement with Canada resulted in increases in trade in each direction. Purchases of Canadian nickel, aluminum, newsprint, and other industrial supplies—which accounted for two-thirds of our imports from that country—were 8 percent above the previous year's level. Significant advances were also recorded in imports of engines and electrical machinery.

Exports of capital equipment, which represented nearly half of our sales to Canada, continued to benefit from the heavy capital investment by Canadians and Americans in that country. Following a gain of over one-fifth in machinery exports in 1964, there were further increases in shipments of a wide variety of both electrical and non-electrical machinery in 1965. Increased sales to Canada were experienced for chemical elements and compounds, iron and steel-mill products, and coal among the industrial supplies. Textile exports rose only slightly in face of increasing competition in Canada from Japanese and Hong Kong fabrics.

U.S. exports to Western Europe expanded by only 3 percent in 1965, although our imports from those countries increased by 18 percent. Nevertheless, our traditional favorable trade balance with this area was retained; trade with Europe accounted for more than half of the U.S. export surplus last year.

Both agricultural and nonagricultural shipments to Western Europe expanded in 1965, though by relatively small amounts compared to 1964. The rise in agricultural exports was limited to 3 percent because more than \$200 million gain in shipments of food and feed was nearly balanced by a sharp decline in cotton exports.

Imports from Western Europe rose in 1965 to a total of \$6.2 billion. Imports of British machinery, whisky, and steel mill products accounted for half of the quarter billion dollar gain in our purchases from that country. Steel and machinery purchases also boosted imports strongly from West Germany, France, and Italy. Automobiles remained a major dollar earner for Germany, but U.S. purchases rose more slowly than in recent years.

Our exports to Japan advanced more slowly in 1965 primarily as a result of the leveling off of industrial production in that country. Our sales of iron and steel scrap, of which we are the major supplier, fell by more than one-third. This decline stemmed largely from the Japanese modernization of its steel industry. Sales of U.S. cotton to Japan dropped 7 percent.

Our imports from Japan advanced by more than one-third in 1965 as demand in this country increased for a variety of Japanese manufactured commodities. Although consumer goods remained the largest import, accounting for 46 percent of our purchases from Japan, arrivals of industrial supplies represented over half of the expansion. Iron and steel mill products, heading the long list of increasing imports rose by three-fourths in value to a total of \$484 million. Our purchases of Japanese motorcycles more than doubled, while TV imports expanded by one-half.

While U.S. imports in 1965 from the Latin American Republics rose by 4 percent in value, our export growth rate declined slightly from the 1964 level. Imports, valued at \$3.7 billion peak last year, advanced primarily as a result of the strong U.S. demand for industrial supplies and materials from that region. Larger purchases of iron ore, unmanufactured wool, and residual fuel oil contributed heavily to the expansion.

Our major import from the area, coffee, fell by \$105 million, or by 253 million pounds, reflecting decreases in the quantities received from Brazil, Colombia, and Mexico.

Exports to the 19 Republics, valued at \$3.8 billion in 1965, exceeded shipments in all other years since 1957. There was a drop in agricultural exports of about \$100 million primarily in wheat to Brazil under Public Law 480 programs, which was offset by gains, largely in various types of machinery.

U.S. imports from Oceania increased by 3 percent, mainly due to expanded arrivals of wool and fish. The drop of one-fifth in meat purchases stemmed primarily from the diversion of Australian and New Zealand meat shipments to Europe where higher prices prevailed. U.S. purchases from Asia (excluding Japan) advanced by 14 percent in 1965 as substantial gains were registered in deliveries of tin, jute, petroleum, and clothing.

U.S. imports from Africa were 5 percent below the level reached in 1964. Chiefly responsible for the decrease were sharply curtailed purchases of coffee and uranium, which more than offset small increases in imports of petroleum, copper, and diamonds. Over half the African decline represented decreased arrivals from the Republic of South Africa.

The U.S. share of foreign country imports of all merchandise in 1965 dropped to 20.1 percent from 20.9 percent in 1964, as other countries' foreign sales expanded faster than our own. The decline was broadly based, as measured in terms of U.S. share of trading partner's total imports. With the exception of Canada, the United Kingdom, Spain, and Italy, losses in shares were registered in all of our first 20 markets.

Western European imports from the United States in 1965 represented a smaller proportion of their foreign purchases than in the previous year. This appeared to be the same with the countries of Latin America, although complete data for all the months of 1965 were not available. Share gains in Canada, the United Kingdom, Spain, and the smaller markets of Yugoslavia, Finland, Ireland, and Turkey were more than offset by the reduced shares in the Federal Republic of Germany, France, Netherlands, Sweden, and most of the other European countries. In the Latin American market our shares

in Mexico, Brazil, Argentina, Colombia, and Peru were down in 1965 compared to the previous year.

The U.S. share of most other important markets declined. Although Japanese purchases from the United States remained almost stable, the U.S. share of that market fell slightly. India and Pakistan, both large markets for U.S. products, made a smaller part of their foreign purchases in the United States in 1965, as the U.S. share decreased more than 3 percentage points in India and almost 7 points in Pakistan. Other important U.S. markets making a smaller share of their purchases in the United States in 1965 than in the previous year included Australia, Philippines, and the Republic of Korea.

U.S. exports of manufactures accounted for almost two-thirds of its total shipments in 1965. Although exports of such manufactures rose by 5½ percent in value last year over 1964, those of 13 other major suppliers increased more than twice as fast. As a result, the U.S. share of world exports of manufactured goods to foreign markets declined from the previous year, by 1 percentage point, to 22.5 percent.

The U.S. world market share in each of the principal categories of manufactured goods was lower in 1965 than in 1964, although the declines in nonelectric machinery and transport equipment were relatively small. The most serious losses were in chemicals and electrical machinery, in each of which the U.S. share dropped by more than 2 percentage points.

II. THE SIXTH ROUND OF TRADE NEGOTIATIONS

The sixth round of trade negotiations under the GATT, known as the Kennedy round, opened in Geneva in May 1964. At that time, the objectives of the negotiations were set forth in a unanimously adopted declaration of the GATT Trade Negotiations Committee meeting at the ministerial level.¹

The ministers agreed: that the negotiations would cover all classes of products and would include provision for acceptable conditions of access to world markets for agricultural products; that the negotiations would relate to nontariff as well as tariff barriers; that every effort would be made to reduce barriers to exports of less-developed countries and that these countries could not be expected to fully reciprocate; that negotiations would proceed on the basis of a substantial linear, i.e., across-the-board tariff reduction, with a bare minimum of exceptions. A "working hypothesis" of a 50-percent linear cut was adopted.² It was agreed that exceptions, being those items not to be subjected to the full cut, should be limited to those necessitated by reasons of overriding national interest.

Exceptions lists on nonagricultural products were exchanged November 16, 1964. The United States, the European Economic Community, the United Kingdom, Japan, and Finland submitted lists. Austria, Denmark, Norway, Sweden, and Switzerland declared that, subject to receiving reciprocity, they would not claim any exceptions. Canada submitted a positive list of tariff concessions, being among those countries which had not agreed to participate on

¹ The full text of this declaration appears as app. A of the Ninth Annual Report of the President on the Trade Agreements Program for 1964.

² Fifteen countries agreed to negotiate on the basis of this hypothesis. See app. A for list and status of countries negotiating in the Kennedy round.

the basis of a linear cut. Other countries agreed to make their offers in 1965.³

Because one of the major participants, the EEC, was not ready to negotiate on agricultural products, the exchange of agricultural offers was postponed. The postponement was also necessitated by the lack of agreement among the major participants on rules and procedures to govern negotiations in agriculture. The United States made it clear, however, that the decision to proceed on industrial products without agreement on agriculture did not reflect any change in its basic position that liberalization of agricultural trade had to be included in the final Kennedy round agreement.

With industrial exceptions lists on the table, the initial phase of actual negotiations began in January 1965 among those countries which had introduced exceptions lists. Meeting as a group, they heard from each other detailed justifications for every exceptions list item, with an opportunity being afforded for close questioning in every case.

When this process was completed, further examination on a bilateral basis continued through the year, affording each country the opportunity for extensive technical analysis as well as discussion of its interest in and concern about exceptions proposed by other participants.

Before January 1965, the chief U.S. negotiator in Geneva had only a skeleton staff. With the commencement of exceptions list activity, the main part of the delegation began moving from Washington to Geneva. By midspring, the full complement of about 30 officers was at work. Included were senior advisers and technical specialists drawn from the Departments of State, Commerce, Agriculture, Labor, and Interior and the Tariff Commission as well as from the Office of the Special Representative.

The delegation was organized largely into country teams, each team concentrating on the negotiating problems of the country or group of countries to which it was assigned. The teams had been organized on this basis in Washington where they were engaged in preparatory work for the negotiations, so they brought to Geneva considerable knowledge of U.S. trade interests and problems with the countries in which they were specializing.

The participants agreed that the multilateral and bilateral discussions aimed at clarifying technical aspects of the exceptions lists of the linear countries and offer lists of the nonlinear countries should be supplemented by meetings of limited groups of participants to discuss problems in particular industrial sectors. This did not constitute agreement to negotiate on the basis of sectors, however. The countries having particular import or export interest in chemicals, pulp and paper, aluminum, steel, and cotton textiles began to meet to explore particular problems in world trade in these commodities with a view to assuring maximum inclusion of these product groups in the bargaining.

The issue of disparities, which had been intensely debated without resolution in the early stages of the Kennedy round, remained dormant

³ Under the terms of a resolution of May 6, 1964, the Trade Negotiations Committee agreed that Canada, Australia, New Zealand, and South Africa fell into a category of countries with a special trade or economic structure such that equal linear reductions would not provide an adequate balance of advantages in the negotiations and that the objective in the case of these countries should be the negotiation of a balance of advantages based on concessions by them of equivalent value. These countries were therefore to make a positive offer on specific products rather than a linear reduction with exceptions. Australia, New Zealand, and South Africa tabled offers in 1965.

during 1965. The EEC had insisted that where tariff rates between countries on the same items were at wide variance, in a linear negotiation the country with the high rate should cut more deeply than the country with the low rate. Certain U.S. duties were the main target of this proposal. It had been agreed at the outset of the negotiations that there would be special rules for disparities that was significant in their effect on trade, but a formula that could be fairly applied, and without adverse results for third parties, could not be agreed upon.

* * *

In preparation for discussions in Geneva on nontariff barriers to trade, study was undertaken in Washington to evaluate the consequences for U.S. trade of barriers used by other countries and to suggest possible action regarding them.

Groups were established in Geneva and initial discussions held on those nontariff barriers lending themselves to general discussions such as government procurement policies and antidumping systems. Bilateral discussions began on measures that discriminated against a product of a particular country such as road taxes which appeared to be aimed at American automobiles. Sector discussions began on the nontariff barriers related to a commodity within one of the sector studies, such as the American selling price system of valuation, as it relates to chemicals, in the chemical sector talks.

* * *

The particular need to reduce barriers to less developed country trade was reaffirmed in the declaration of ministers at the opening of the sixth round in May 1964.⁴ The principle of nonreciprocity in trade negotiations on the part of developing countries was accepted in resolutions approved by ministers of the negotiating countries and reiterated for all future negotiations in the new part IV of the GATT by the contracting parties in February 1965.

A subcommittee of the Trade Negotiations Committee was set up to deal with the participation of the developing countries. It established procedures for these countries to indicate their particular interests, including indications by each country of products whose exclusion from the negotiations by industrialized countries were felt to be particularly harmful, and indications of products on which more than 50 percent tariff reductions would be particularly desirable. The development and trade needs of these countries would also be considered in regard to their contribution to the overall objective of trade liberalization.

The Trade Negotiations Committee provided that less developed countries which formally indicated their intention to participate in the negotiations receive details of exceptions by industrialized countries on items of particular interest to them before they themselves indicated what contribution they would offer. A large number of these nations have so entered into participation in the sixth round,⁵ and tabled or indicated their intention to table statements of their offer during the fall of 1965.

In view of their vital importance to the economies of many developing countries, a special group was established to deal with tropical

⁴ Activities in the GATT and UNCTAD relating to problems of less-developed country trade are discussed in ch. III.

⁵ See app. A.

products such as cocoa, coffee, oilseeds and vegetable oils, and tropical timber.

* * *

In the early stages of the sixth round of trade negotiations the United States sought agreement among the participants on rules to govern the negotiations on agricultural products. Throughout these discussions the United States insisted that the objective of the agricultural negotiations should be to achieve a degree of trade liberalization equivalent to that achieved in the nonagricultural sector. Specifically, where fixed tariffs represent the sole or principal trade barrier, the linear cut rule of 50 percent with a bare minimum of exceptions should apply. Where other forms of protection were used, e.g., variable levies, the objective should be to achieve a degree of trade liberalization comparable to the 50 percent cut in fixed tariff items. The EEC, however, continued to press for a system which would limit the agricultural negotiations to the freezing of the present level of agricultural protection in each country, product by product.

Early in 1965, after the tabling of industrial offers the previous November, efforts to reach an agreement on agricultural negotiating rules were abandoned and a date of September 16 was set for an exchange of agricultural offers. It was agreed that each participant would make its agricultural offers as it saw fit, consistent with the ministerial directive of improving access to world markets for agricultural products in furtherance of a significant development and expansion of trade in such products. The delay until September in tabling agricultural offers was at the request of the European Economic Community, which required more time to complete some of its internal agricultural regulations. The Community took the position that it could not make offers on agricultural products in the Kennedy round until major internal decisions with respect to the level of price supports and the basic form of the common agricultural policy regulations were determined for major products. On grains, however, the Community indicated in the spring of 1965 that it was prepared to begin negotiations since it had taken the decision with respect to the level of Community grain prices in December 1964.

On May 17, the agricultural phase of the Kennedy round opened with an exchange of limited cereals offers by principal importing and exporting nations. A month later, participants met for a 2-week period of discussions held for the purpose of clarifying offers. The United States had three objectives in considering an international cereals arrangement: to provide for improved access to world markets for its grain exports, to provide a system of equitable sharing among grain importers and exporters of the job of adjusting grain production supply to demand, and to include some commitment to multilateral food-aid sharing. Although progress was slow at the initial meetings, there was a promise of future progress.

Internal differences within the European Communities resulted in a suspension of major decision-making by the EEC, Euratom, and ECSC beginning on June 30, 1965 and continuing throughout the remainder of the year.⁶

⁶ On June 30, France began a boycott of Community decision-making which lasted 7 months. In the early months of 1966, however, the problems underlying the crisis began to be resolved, and the Community was able to resume participation in the Kennedy round by mid-1966.

Because the mandate of the Community negotiators in many areas was of limited scope and in others not yet formulated, Community participation rapidly diminished in effectiveness during the latter half of 1965, and the pace of the negotiations slowed.

The Community was therefore unable to table agricultural offers on the agreed date of September 16. The United States concluded that the tabling of these offers on schedule would serve the useful purpose of advancing the general negotiations despite the absence of the EEC offers, and was supported by the other major agricultural traders who shared with the United States the conviction that agricultural negotiations were a vital part of the sixth round.

Accordingly, all the major agricultural nations tabled offers, withholding those of primary interest to the EEC until such time as the EEC could table its offers. This step achieved only limited success in maintaining momentum in the negotiations, however, since the scope of the agricultural offers of most participating countries was very limited in view of the community failure to participate.

Through the remainder of the year, because of the crisis in the community, activity was limited principally to bilateral exchanges among the active participants for the purpose of clarifying the agricultural offers made and assessing their adequacy.

After further meetings at the technical level, the grains negotiations were also suspended pending the resolution of the internal community crisis.

* * *

Determination of what the United States would offer in the Kennedy round followed an extensive process of public hearings and interagency deliberation. With the tabling of the industrial exceptions lists and the agricultural offer lists, this process was not discontinued. The Trade Information Committee, chaired by a member of the Office of the Special Representative and made up of officials of the Departments of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury, continued to accept from any interested party information concerning any matter relating to the negotiations. This included updating and revision of previous testimony on the economic conditions of any industry, representations from industries not previously heard, and statements concerning foreign import restrictions. The Committee made such information available to the policymaking groups that advise the Special Representative on instructions to the Geneva negotiators.

In addition, regular meetings were held of the Public Advisory Committee for Trade Negotiations, a 45-member group appointed by the President and drawn from industry, agriculture, labor, education, and consumer groups. Chaired by the Special Representative, this group of distinguished citizens advised him in the light of extensive briefing on the conduct of the negotiations and, in many instances, visits to the delegation in Geneva.

A roster of some 290 technical specialists in industry, agriculture, and labor was a source of special information sought by the Office of the Special Representative in its continuing effort to keep abreast of pertinent developments across the whole spectrum of the American economy.

III. OTHER TRADE ACTIVITIES

A. GATT

1. *Introduction*

The General Agreement on Tariffs and Trade (GATT), which entered into force on January 1, 1948, is basically an instrument setting forth agreed rules directed to the expansion of international trade through the reduction of obstacles to the flow of that trade. It includes provisions for the negotiation of compensation, and rights of retaliation, available to signatories found to have had GATT rights or benefits impaired or nullified by actions of other signatories.

The GATT also provides a forum in which conflicts can be resolved and international trade negotiations conducted. The Kennedy round, discussed in part II of this report, is the sixth general round of such negotiations.

At the end of 1965, there were 67 signatories, known as contracting parties, and 13 additional nations participating on a provisional or other special basis. These 80 nations included all the major trading nations of the free world and most of the developing nations. Neither the Soviet Union nor Communist China is a contracting party, but a few of the Eastern European Communist nations take part in the GATT.

2. *Revised Tariff Schedules of the United States*

The newly adopted U.S. tariff (The Tariff Schedules of the United States), which was made effective in 1963, resulted in some rates of duty in excess of those provided for in tariff concessions that the United States had granted to other countries in trade agreements. Since the United States was internationally committed not to increase rates above those provided for in these tariff concessions, negotiations were undertaken with the countries concerned with a view to obtaining their agreement to increased rates. These negotiations were initiated in September 1962 with 30 interested contracting parties under article XXVIII of the GATT. The new Tariff Schedules of the United States were put into effect before completion of these negotiations; in order to prevent a conflict with U.S. international obligations pending such completion therefore, a waiver was obtained in July 1963 from the contracting parties to the GATT. Arrangements for the application of the new tariff were also made with countries with which bilateral trade agreements were in force. The GATT waiver has been extended, as necessary.

In October 1965 the Tariff Schedules Technical Amendments Act was enacted in order to correct errors and omissions in the Tariff Schedules of the United States. Certain provisions of the Technical Amendments Act also increased tariffs on products subject to trade agreement concessions. The United States, therefore, obtained an amendment to its original GATT waiver in order to prevent these tariff increases from violating the general agreement pending the conclusion of negotiations with interested countries.

In 1965, the United States concluded negotiations with Canada, Haiti, Uruguay, Chile, the Dominican Republic, India, Indonesia, and Nicaragua. The agreement concluded with Canada differed from the others in that new concessions (tariff reductions) were made by the United States. In the case of other countries, incidental rate increases on products of interest to them, resulting from the intro-

duction of the Tariff Schedules of the United States (amended by the Technical Amendments Act), were offset by incidental tariff rate reductions. In the case of Canada, however, rate increases under the new U.S. tariff had exceeded decreases, resulting in a net impairment of previous United States concessions. In order to offset this impairment, compensatory tariff reductions under the tariff reducing authority of the Trade Expansion Act of 1962 were negotiated with Canada, as it had been envisaged might be the case in a few instances when the Tariff Classification Act was enacted.

By the end of 1965, 25 (see list below) of the 30 revised tariff schedule negotiations initiated with GATT contracting parties in 1962 had resulted in agreements, which are to be reflected in a new U.S. "schedule XX" to the GATT containing all U.S. concessions to GATT contracting parties.

Negotiations were continuing at the end of the year with the United Kingdom, Sweden, Japan, South Africa, and the EEC.

REVISED TARIFF SCHEDULE AGREEMENTS CONCLUDED BY THE UNITED STATES

Australia	Israel
Austria	New Zealand
Brazil	Nicaragua
Canada	Norway
Ceylon	Pakistan
Chile	Peru
Denmark	Portugal
Dominican Republic	Rhodesia
Finland	Spain
Greece	Switzerland
Haiti	Turkey
India	Uruguay
Indonesia	

3. *Article XXVIII negotiations by other contracting parties to the GATT*

During 1965, the United States negotiated with eight other contracting parties to the GATT which had increased duties on products on which they had negotiated GATT tariff concessions with the United States. These withdrawals of concessions were undertaken under the provisions of article XXVIII of the GATT. The negotiations ranged, in magnitude of trade coverage, from a single item duty increase to the introduction of an entire new tariff schedule (in the case of Peru). These negotiations did not involve new concessions on the part of the United States.

By the end of the year, agreement had been reached with New Zealand providing for compensatory tariff concessions in place of a withdrawn concession on two products. Negotiations continued with the remaining seven contracting parties. (See list below.)

Article XXVIII provides procedures under which any contracting party may modify or withdraw concessions in its schedule to the GATT. The country which takes this action is expected to negotiate or to consult with the countries to which the concessions were initially negotiated and with other contracting parties which have trade interest in the concessions, depending on the extent of such interest. It is the guiding principle of such negotiations that the countries

involved will endeavor to maintain a general level of reciprocal and mutually advantageous concessions not less favorable to trade than the level existing prior to the negotiations.

NEGOTIATIONS BY OTHER CONTRACTING PARTIES UNDER ARTICLE XXVIII OF THE GATT PENDING ON DECEMBER 31, 1965

Australia
Canada
Greece
Japan

Peru
South Africa
Turkey

4. *The removal of foreign quantitative restrictions against U.S. exports*

After World War II, many countries adopted selective controls to conserve their scarce foreign exchange. Quantitative restrictions on imports are permitted on these grounds under GATT rules. The critical lack of foreign exchange in many countries continued through the immediate postwar period and even into the fifties. U.S. Government agencies have continually worked to have these restrictions removed since that time.

In 1965, the United States urged many governments to take further steps toward eliminating, relaxing, or simplifying restrictions on imports from the United States. The United States pressed its case for such liberalization through official consultations during the year in major capitals of Western Europe, in Japan, and in Canada, as well as in Geneva under the terms of the General Agreement on Tariffs and Trade (GATT).

After 1963, most important European trading countries dismantled virtually all quantitative restrictions on imports of industrial items of significant interest to the United States. An important exception was coal, imports of which are still restricted in a number of major European countries.

Many Western European nations continue to restrict a number of agricultural items. To deal with this difficult problem, the United States has continued to utilize both bilateral diplomatic channels and the consultation procedures of the General Agreement on Tariffs and Trade.

Following GATT consultations between the United States and Germany in 1964 and 1965, Germany in 1965 established automatically renewable quota arrangements for U.S. exporters for sales of fresh apples, pears, and canned cherries. Germany also established sizable quotas for dried alfalfa, ice cream mix, and applesauce. Austria eased certain technical import requirements for fresh apples and pears in 1965. The French have progressively increased the size of import quotas on various items of fresh and canned fruits, following GATT consultations with the United States which began in 1962 and have periodically continued since that time.

The United States also participated actively in GATT consultations under the residual import restrictions procedures. Countries which maintain restrictions inconsistent with their GATT obligations are required to notify the Director General of GATT of such restrictions. From time to time, these restrictions are reviewed by the contracting parties. The United States also utilized the consultative mechanism of the GATT Committee on Balance of Payments. This Committee consults periodically with countries imposing import restrictions for

balance-of-payments reasons. The countries concerned are required to justify their restrictions and their conformity with GATT principles, and to seek to minimize their effect upon other countries. These consultations help to assure that restrictions applied to accepted circumstances are removed as rapidly as changing conditions permit. In 1965, the United States participated in such discussions with Finland, Israel, New Zealand, Tunisia, United Arab Republic, Uruguay, Yugoslavia, Iceland, Turkey, South Africa, and Chile.

Among liberalization steps in 1965 of significance to U.S. trade were the removal of quotas by Denmark and France on certain vegetables, New Zealand on dried fruits, Japan on a variety of vegetables and animal feed, Chile on frozen chicken, peas, and potatoes. Norway enlarged quotas for fresh apples and a few other agricultural commodities; Japan removed import restrictions on automobiles and imitation jewelry; Spain abolished quota controls over 100 categories of goods and enlarged the global quotas on a number of other items. In addition to removing quotas on nuts and certain oils, Finland freed imports from licensing requirements on a large number of items; and Denmark removed the remaining restrictions on industrial items of export interest to the United States, particularly refrigerators, washing machines, gas meters, and parts of gas meters. Germany removed import licensing arrangements which discriminated against U.S. bourbon; Canada modified its restriction on the use of three-quarter bushel basket; and the United Kingdom agreed to a single tariff for imports of U.S. fruit cocktail.

Persistent balance-of-payments difficulties have prevented large-scale removal of import controls in less-developed countries. Typically, these countries attempt to limit imports of nonessential goods in order to use their limited available foreign exchange most effectively. Since they do not normally build up large reserves of gold and foreign exchange, their import restrictions affect the composition of their imports but generally not their total amount.

5. Trade problems of the less-developed countries: GATT

On November 24, 1964, at a special session of the GATT, the contracting parties approved the text of a new chapter of the general agreement dealing with the trade of the less-developed countries.¹ Subsequently, on February 8, 1965, a protocol amending the GATT to introduce part IV on trade and development was opened for signature. By the end of 1965, however, the new chapter had not formally come into force, since not enough contracting parties had completed the necessary internal steps for ratification. However, the United States and many other countries had signed a declaration of *de facto* application in which they declared their intention to observe the provisions of the new chapter pending its legal adoption.

The new chapter, which will be incorporated into the general agreement as part IV, contains three new articles, XXXVI to XXXVIII. The first of these, article XXXVI, is a statement of principles and objectives to guide contracting parties in their policies toward the trade of less-developed countries. It recognizes the disparity between standards of living of the developed and less-developed countries and lists the trade needs of the latter. Among these are the need for a rapid and sustained expansion of their export earnings,

¹ See app. B of the Ninth Annual Report of the President on the Trade Agreements Program for 1964.

more favorable conditions of access to world markets, and export diversification. It further declares that "the developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of the less-developed countries."

In article XXXVII, the developed countries agree to accord, to the fullest extent possible, high priority to the reduction and elimination of barriers to the trade of less-developed countries. For their part, the less-developed contracting parties agree to take appropriate action consistent with their trade, development, and financial needs in implementing the provisions of the new chapter.

Article XXXVIII provides for joint action to further the objectives set out in article XXXVI, e.g., analysis of development plans and policies of individual less-developed countries, and seeking feasible methods to increase the export earnings of the less-developed contracting parties through export promotion and market studies.

On February 8, 1965, the contracting parties established the Committee on Trade and Development (CTD) to provide effective supervision of the provisions of part IV. The CTD replaced the former GATT Committee III and the Action Committee, adopting its work program in the light of the explicit provisions of part IV. Among its primary responsibilities are the following: to keep under continuous review the provisions of part IV of the general agreement; to arrange or conduct such consultations as may be required in applying part IV; and to formulate proposals for the consideration of the contracting parties for the furtherance of the provisions of part IV.

Early in 1965 the CTD recommended reporting procedures, which were subsequently approved by the contracting parties at the 22d session, pursuant to which contracting parties are to provide information on measures they had taken to carry out the provisions of part IV. Many countries submitted written or oral notifications on action taken. The Committee on Trade and Development also reviewed action taken by developed contracting parties to eliminate restrictions on products of interest to LDC's and to remove trade barriers and restraints on the consumption of tropical products. While genuine progress was made by some developed countries in removing barriers affecting the trade of less-developed countries, the overall achievement was not as significant as the CTD had hoped.

At its first meetings in February and March, the CTD established eight subsidiary bodies to carry on its continuing responsibilities. The first of these, the Working Group on Examination of Products of Export Interest to LDC's was charged with making recommendations to the CTD providing guidance to contracting parties as to their work under part IV regarding products of export interest to less-developed countries. After examining lists of products notified by LDC's as of export interest, the group recommended in a report to the CTD that governments take full account of the lists in meeting their part IV and Kennedy round obligations.

A second group, the Group on Residual Restrictions, was charged with the responsibility of sending findings and recommendations to the CTD regarding possible action to be taken to secure the removal of residual restrictions maintained on the trade of less-developed countries inconsistently with the GATT. Two meetings of this group were held in 1965 in which the group considered restrictions maintained by 12 developed countries on some 250 items of export interest to the

LDC's. The meetings were marked by criticism by the less-developed countries that the developed countries had not moved fast enough in removing their restrictions.

The Ad Hoc Group on Expansion of Trade Among Less-Developed Countries examines problems involved in expanding trade between LDC's, including the role of intra-LDC preferences in promoting such trade. In the course of 1965 it agreed to undertake specific studies concerning intra-LDC preferences and conduct a study identifying products which would seem to offer the best prospects for export among less-developed countries. While there has been a general recognition that such preferences, appropriately administered and subject to the necessary safeguards, might be a way to increase trade among less-developed countries and help them achieve economies of scale, no agreement has been reached on the scope, duration, or geographical coverage of such arrangements.

Another group, the Working Group on Preferences by Industrial Countries, was set up to examine proposals to extend preferences by industrialized countries to the less developed. This group met only once in 1965 and did not take up any substantive consideration of proposals for preferences from developed to less-developed countries.

In 1965, the contracting parties established a working party to consider an Australian request under article XXV of the GATT for a waiver of its most-favored-nation obligations under article I. The waiver would allow that country to extend tariff preferences on selected products to the LDC's without granting similar treatment to the products of developed countries. By the end of the year, a general consensus had emerged among a majority of the contracting parties to grant Australia a qualified waiver of its MFN obligations. The United States had strong misgivings about the Australian scheme and was unable to support the Australian waiver request.

The Ad Hoc Group on Legal Amendments to the GATT has been examining possible amendments to articles XVIII and XXIII—and related changes in other articles of the GATT—which appear necessary or desirable to meet the special trade and development needs of less-developed countries. Issues examined during the year included a proposed acceleration of the investigation and disposition of LDC trade complaints against developed countries and explicit permission for less-developed contracting parties to apply surcharges temporarily for balance-of-payments purposes.

Another body, the Working Group on International Commodity Problems, met during 1965 and discussed problems affecting trade in cocoa, cotton, and tropical timber.

A Group of Experts on Adjustment Assistance Measures was also established to report on measures applied by industrial countries for adjustment assistance to permit an expansion of trade in products of interest to the LDC's. Contracting parties provided information on adjustment measures taken or planned for assisting adjustment of firms and labor to changes in the structure and pattern of production. The less-developed countries sought the drafting of recommendations concerning use of adjustment assistance to accommodate the problems in developed nations arising from increased imports from the less-developed countries.

Lastly, the Expert Group on Trade and Aid Studies examined GATT Secretariat studies on the development plans of Uganda and

Nigeria. The objective of these and subsequent studies of individual country development plans is to analyse the trade and aid relationships and the role and prospects of the export sector set forth in the country plans and make recommendations thereon to aid LDC exports.

There was an expansion in 1965 in the activities of the International Trade Center, which was set up in 1964 to assist the less-developed countries in a practical way to expand their exports. The Center helps these countries—whether they are GATT contracting parties or not—in two ways. It furnishes information on export markets and marketing, and aids them in developing export promotion services and in training their personnel required in these services. The primary focus of attention, then, is on affording the less-developed countries as much as possible the same ready access to trade and market data, export know-how and promotion techniques as are available to the businessmen of the developed countries through their national trade information and promotion services.

In 1965 the Center expanded its liaison network for obtaining market information from governments, international organizations and private companies and trade associations. By the end of 1965 over 20 developing countries had made inquiries of the Center's Market Information Service concerning markets for a wide variety of their primary, processed, and manufactured products. The Center also completed extensive market surveys on plywood and veneer as well as citrus juices in 1965, and continued publication of its quarterlies, *International Trade Forum and Supplement*, which are circulated to over 13,000 trade officials, businessmen and trade organizations throughout the world.

6. The 22d session of the contracting parties

The contracting parties held their 22d regular session in March 1965.² The sessions, which are now generally held on an annual basis, provide a forum for a major review of trade problems and developments confronting the GATT.

At the 22d session, primary attention was focused on trade problems of the developing countries. The newly established Committee on Trade and Development, made up of over 50 contracting parties, met throughout the session; it was concerned primarily with procedural matters. The Committee established a number of subsidiary bodies to study and make recommendations in such areas as barriers to trade in products of export interest to less-developed countries, the role of exports in development plans of less-developed countries, and the attainment of stable and remunerative prices for primary product exports and providing improved and acceptable conditions of access to world markets for primary products of export interest to less-developed countries. In the plenary session a number of contracting parties expressed appreciation for the work done by the GATT in the field of trade and development and expressed their interest in the proposed work program of the Committee on Trade and Development as well as the hope that its future work would be highly useful in meeting the problems confronting the trade of less-developed countries.

Substantial attention was again devoted to regional economic groupings. The contracting parties heard reports on the European

² See app. B for the text of the U.S. delegation's report.

Economic Community (EEC), which included the Community's association agreements with Greece and Turkey, the European Free Trade Association, the Latin American Free Trade Association, the Central American Common Market, the Equatorial Customs Union, the Arab Common Market, and the EEC Convention of Association with the African and Malagasy States (Yaounde Convention). The Yaounde Convention was the subject of considerable difference of opinion. Several less-developed countries, particularly in Latin America, argued that the convention does not accord with article XXIV of the GATT being a series of bilateral preferential trading arrangements with harmful effects on the trade of third countries. The contracting parties established working parties to examine both the Yaounde Convention and the Arab Common Market in the light of the relevant provisions of the GATT. They also took note of the considerable progress being made toward economic integration in the other free trade and customs union arrangements.

The contracting parties also reviewed reports of the Committee on Balance of Payments on its consultations with 11 countries still maintaining quantitative controls for balance-of-payments reasons under article XII or XVIII of the GATT. They approved a program for similar consultations with 16 contracting parties in 1965.

Numerous other items covering a variety of issues in the field of trade restrictions and tariff adjustment were discussed. These included so-called residual import restrictions still being applied contrary to the GATT, the Uruguayan and United Kingdom import surcharges, and changes in the tariff levels of Peru, Uruguay, and Ceylon. At the session, the contracting parties also considered the status of the Kennedy round of trade negotiations on the basis of a report by the GATT's Director General, and the United States-Canada Automotive Products Agreement.

B. TRADE PROBLEMS OF THE DEVELOPING COUNTRIES: UNCTAD

Many developing countries believe that the present arrangements through which international trade is conducted are not responsive to the particular problems they face in their effort to achieve sustained economic growth. In seeking new initiatives in the trade field, they have looked increasingly to the United Nations.

The United Nations Conference on Trade and Development (UNCTAD) was held in Geneva during March-June 1964. The dominant issue of the Conference was how to come to grips with the persistent tendency toward external imbalance associated with the development process. The developing countries refer to this imbalance as "the trade gap," which, they are convinced, is not only chronic, but is worsening.

The UNCTAD has emerged as a forum in which the 77 developing countries, exercising a high degree of unity, press their demands for changes in world trading arrangements to assist them in their development efforts. The developing countries seek, among immediate goals, measures designed to expand their exports of primary commodities at stable and remunerative prices and to gain nonreciprocal preferential access to the markets of the industrialized countries for their manufactured products.

The continuing UNCTAD machinery set up by the General Assembly in Resolution 1995(XIX) calls for a conference of all

U.N. members at least every 3 years; a Trade and Development Board of 55 countries, to meet between conferences; and 4 subsidiary committees of the Board to deal with primary commodity trade, trade in manufactures, invisibles, and financing related to trade and shipping. The UNCTAD Secretariat is located in Geneva and is headed by Secretary General Raul Prebisch, who was appointed by the Secretary General of the United Nations and confirmed by the General Assembly. The UNCTAD is an integral part of the U.N. system and reports on its activities to the General Assembly through the Economic and Social Council.

The UNCTAD machinery became fully established and began functioning during 1965 when meetings were held of the Trade and Development Board, subsidiary committees, and a number of expert groups. Major attention was given to problems affecting developing countries' foreign exchange earnings from exports of primary commodities, problems of foremost concern to these countries which were the subject of close consideration within the U.N. even prior to the establishment of UNCTAD. Cocoa production and prices, for example, have been subject to great fluctuations during 1965 and much effort has been devoted to developing a workable international agreement for this commodity. The developing countries are anxious to find ways and means of avoiding the disruption of their development programs by unforeseen adverse movements in their export proceeds: a proposal for supplementary financial measures to help deal with this problem has been elaborated by the staff of the International Bank for Reconstruction and Development and will be examined in detail by an UNCTAD expert group during 1966. As indicated above, another major topic of concern to UNCTAD is the question of trade preferences for developing countries. The first meeting of a Special Committee on Preferences in the spring of 1965 failed to reach agreement and a permanent subcommittee of the Committee on Manufactures was established to continue its work.

A specific accomplishment of the UNCTAD in 1965 was its sponsorship of a Conference of Plenipotentiaries on Transit Trade of Land-Locked Countries in June, which succeeded in producing a convention.

C. THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

The expansion of world trade on a multilateral, nondiscriminatory basis is one of the three principal aims of the Organization for Economic Cooperation and Development—along with growth and stability of member nation economies and the economic expansion of developing countries, as specified in the OECD Convention.

The OECD was established in 1961 and began its considerations of problems of international trade against the background of that time—

the economic recovery of Europe and a high degree of liberalization of trade among the European countries and toward North America, the achievements in large measure of the OECD's predecessor organization, the Organization for European Economic Cooperation;

the establishment of the European Economic Community and the European Free Trade Association, with the problems for trade among the Western trading community as a whole

brought about by the creation of the two trading groups; and the increased realization of the need for helping the developing countries, including the importance to their development of expanding trade.

The OECD's activities in the trade field have thus been primarily of two types: (a) encouraging the removal of remaining nontariff obstacles to trade among the member countries which now number 21, with the addition of the United States, Canada, and Japan to the 18 European members of the OEEC), and (b) examining and coordinating policies directed toward the trade problems of the developing countries.

Increasingly, the latter category has claimed the OECD's attention, particularly as the first (1964) United Nations Conference on Trade and Development (UNCTAD) highlighted the developing countries' concern with trade as an instrument for furthering their development. The OECD has undertaken consultations on and coordination of policies of the Western developed countries both before and since the first UNCTAD, has served as a forum for consultations among those countries in connection with the work of the permanent U.N. bodies set up following the first UNCTAD, and has now begun preparations for the second (1967) UNCTAD.

Trade with the developing countries was the primary topic of debate at the November 1965 ministerial level meeting of the OECD Council. Following a U.S. proposal at that meeting, the Organization agreed to the establishment of a special study group to study problems regarding trade between developed and developing countries, with the aim of formulating constructive and concerted policies for encouraging increased export earnings by the developing countries. The group's report is to be considered at the next ministerial council meeting, in the fall of 1966.

In its work toward the reduction of nontariff barriers to trade among member countries, complementing the GATT, the OECD agreed on a notification and consultation procedure in cases of significant changes in trade policies and practices and experimented (with only modest success, however) with a system for consultation prior to putting such changes into effect. The Organization examined in some depth certain specific trade problems, including the trade restrictive effects of import licensing procedures, a draft recommendation on which was under consideration in the OECD Council at the end of 1965. The Organization made considerable progress in 1965 in its study of member governments' procurement policies as they affect international trade, with the objective of exploring the possibilities of rationalizing policies in this field. A special group began looking into export credits questions, and a working party began examining the effects of border tax adjustments on international trade.

IV. DEVELOPMENTS IN COMMODITY TRADE

A. INTRODUCTION

The United States continued to play an active part in intergovernmental consultations and action on world commodity problems in 1965. In the current period, activities in this field have taken on new significance, in the context of the intensified effort being made to help developing countries expand their trade earnings, also in the

context of the Kennedy round's effort to reduce barriers to trade in agricultural products.

There are many organizations concerned with particular aspects of commodity problems, including the councils of the commodity agreements, various commodity study groups, and a complex of specialized commodity bodies within the FAO. To support the work of these groups, the Secretary General of the U.N. and a small advisory committee of experts have had longstanding functions aimed at facilitating and coordinating such work, including the convening of formal commodity conferences upon request. As part of the organizational restructuring attendant on the establishment of UNCTAD, these functions were transferred in 1965 to the Secretary General of UNCTAD and to two new committees within the UNCTAD setup, namely the Trade and Development Board's Committee on Commodities and an expert advisory committee.

Developments during the year suggest that the developing countries hope to use UNCTAD to introduce a greater sense of urgency into the search for solutions for particular commodity problems, as well as to influence the nature of the solutions. On request of the TDB, the Committee on Commodities will keep conditions in world commodity markets under review with a view to identifying those products causing particular concern and suggesting "remedial action" required. At its first meeting, in August 1965, the Committee named cocoa, sugar, and coffee as products causing "immediate concern" and a group of additional products as requiring "close attention" (copper, cotton, iron ore, lead and zinc, rice, rubber, tea, tobacco, and vegetable oils). In the many cases where a commodity arrangement already exists (the term "arrangement" denotes either a formal agreement or a study group) the Committee generally endorsed the existing efforts to improve market conditions, but suggested from time to time, additional measures to be considered.

The most significant activities on specific products during the year are reviewed below.

B. COCOA

Cocoa provides an important part of the foreign exchange earnings of such principal producers as Ghana, Nigeria, Ivory Coast, Cameroon, and Togo. Over the past 10 years cocoa has accounted for over 60 percent of Ghana's export earnings, 40 percent for Cameroon, 35 percent for Togo, and approximately 20 percent for Nigeria and the Ivory Coast. In the Western Hemisphere, Brazil, the Dominican Republic, Ecuador, and Mexico are important cocoa producers. Reasonable and stable cocoa prices are highly important to the economic growth and stability of these countries.

Wide fluctuations in cocoa prices in the mid-1950's led to pressure for joint action to stabilize prices. In 1956, a Cocoa Study Group was created under the auspices of the Food and Agricultural Organization (FAO). The study group ultimately produced a draft long-term cocoa agreement and requested the Secretary General of the U.N. to convene a negotiating conference. This conference, held in the fall of 1963, failed to reach agreement and adjourned sine die. It requested the Secretary General to keep the situation under review, however, and to reconvene the conference when he considered there was basis for a successful negotiation. The failure is generally attributed to differences over the minimum and maximum prices to be

defended by the agreement. However, numerous other important details of the mechanism also remained unresolved.

After the breakdown of negotiations in 1963 the producing countries announced their determination to stabilize the cocoa market through their own efforts, through a newly formed organization called the Cocoa Producers Alliance. The members of this organization made an intensive effort to halt the decline in cocoa prices in the last quarter of 1964 and the first quarter of 1965 through an undertaking not to sell any cocoa below an agreed price. However, this effort failed under the impact of a recordbreaking crop, and sales by some Alliance members below the agreed minimum price. Breakdown of the agreement led to a period of intense selling competition, and in July the publicly recorded price fell to 12 cents per pound—the lowest level in 25 years.

These developments set the stage for a series of meetings during 1965 which discussed the cocoa problem, the possibility of resuming negotiations for an international agreement and possible interim measures. The FAO made the first move by arranging an informal meeting of major producing and consuming countries in April, in Rome, to discuss the desirability of resuming negotiations. The meeting asked the FAO Secretariat to prepare studies on the new situation in cocoa and agreed to meet again in November.

Shortly after the talks in Rome, the UNCTAD's Trade and Development Board adopted a resolution which stressed the urgency of the cocoa problem and requested the Secretary General of UNCTAD to convene a meeting in June of cocoa producing and consuming countries to ascertain what progress might be made toward the resumption of the negotiating conference. Calling this meeting was not inappropriate, in view of the mandate to the Secretary General by the 1963 Conference to keep the cocoa situation under review. However, coming so soon after the FAO-sponsored meeting, there was little additional substance to be discussed. The results of the meeting were in line with the decision of the Rome meeting that new studies were required for consideration later in the year.

In August, when the UNCTAD Committee on Commodities reviewed the report of the June meeting, the producing countries sought to secure recommendations for interim measures to bring prompt relief to cocoa-producing countries, pending resumption of negotiations for a formal price stabilization agreement. The proposed interim measures included a guaranteed minimum price for the 1965-66 cocoa crop, immediate removal of duties on cocoa and cocoa products and drastic reduction of fiscal charges by the Western developed countries, and commitments from Communist countries to increase cocoa imports and per capita consumption. The consuming countries could not respond to these proposals on short notice. It was therefore agreed to convene another meeting of the working party in October 1965 to continue discussion of possible interim measures.

At the October meeting, consuming countries generally stated that they were unable to accept the proposed interim measures, and that such measures must, in any event, be considered within the context of a long-term agreement if they were to be backed up by the necessary legislative authority. Discussion then turned to preparations for a further meeting in January. Additional documentation was requested, including a new draft international agreement to be prepared by the Secretariat. Consuming countries once again reiterated their

willingness to cooperate toward a long-term agreement, and joined in the general hope that the January meeting would produce sufficient evidence of progress to justify the calling of a negotiating conference in the spring of 1966.

C. SUGAR

Approximately half of world trade in sugar is conducted within the framework of special arrangements, such as the U.S. Sugar Act, the Commonwealth Sugar Agreement, and bilateral trade arrangements which tend to guarantee markets at special prices to favored producers. The stability and level of prices on the residual world market are nonetheless important to the economies of sugar-exporting countries. Although there have been international agreements with respect to sugar since 1937, the inability of exporting countries to agree in 1961 on export quotas rendered inoperative the export quota and related economic articles of the then current agreement. The administrative provisions of the agreement, which provide for an International Sugar Council and its Secretariat, have, however, been extended as necessary in order to maintain a forum for discussion and exchange of information.

In September 1965, at the request of the International Sugar Council, the Secretary General of UNCTAD convened an International Sugar Conference to negotiate a new comprehensive agreement. The Conference, attended by the representatives of 65 countries and observers from 13 other countries and 6 intergovernmental organizations, accepted as a basis for negotiations a draft agreement prepared by the Executive Director of the International Sugar Council. The Conference was unable to conclude the negotiations successfully. The major exporters were unwilling to discuss marketing quotas and restraints on their own production unless they received specific commitments from importers, which they could not give, to reduce beet-sugar production and to guarantee wider access to their markets. Also, it became increasingly evident during the Conference that Cuba was opposed to a sugar agreement and was obstructing the negotiations. Thus, the work of the Conference was limited to another protocol extending the International Sugar Council and Secretariat until December 31, 1966. The Conference also requested the Secretary General of UNCTAD, with the assistance of the Executive Director of the International Sugar Council, to arrange consultations and attempt to resolve the outstanding issues.

D. COFFEE

The International Coffee Agreement was negotiated in August 1962 with the stated objective of bringing about price stability and achieving a better balance between supply and consumption. The United States played a leading role in negotiation of the agreement. The Senate gave its advice and consent to our participation on May 21, 1963; legislation to implement our full participation was enacted in May 1965. The International Coffee Organization now functions as an independent international agency.

At the first regular session in 1965 on March 10, the Coffee Council instituted a price index system under which quotas could be adjusted semiautomatically to meet changes in market conditions. The sys-

tem increases quotas when the average price exceeds the index for 15 consecutive days and reduces quotas when the average price falls below the index for 15 consecutive days. By April 28, the average price for all types of coffee had fallen below the index. The Executive Board of the Coffee Council, on May 21, made the maximum cut possible under the system and reduced the annual quota from 45.57 to 43.7 million bags. Prices improved somewhat as a result of this action, and when the Council met in August, quotas for the following coffee year were set at 43.7 million bags with provision for automatic increase to 45.2 million bags if prices rose. In December of 1965, the Council increased available supplies by 1,357,000 bags by granting special waivers to 14 countries producing the particular kinds of coffee that had been in strongest demand.

At the December meeting, the Council also agreed to strengthen the certificate of origin regulations. Increasing volumes of coffee grown in member countries, but shipped through nonmember countries, were affecting prices. As such coffee came technically from a nonmember country, no certificate of origin was required. The Council issued a revised regulation, effective April 1, 1966, under which a certificate of origin will be required for the importation of coffee grown in member countries, regardless of the transportation history of any particular shipment.

The UNCTAD Committee on Commodities found both producing and consuming countries prepared to recognize "the valuable contribution made by the International Coffee Agreement. Although the agreement was not in all respects entirely satisfactory, it had a number of commendable features. The International Coffee Council, which administered the agreement, had gone a long way toward the regulation of the bulk of world coffee supplies."

In the face of a bumper crop in 1965, however, many countries in Latin America and Africa were building up heavy surpluses and finding it difficult to hold their exports within the quotas assigned to them under the agreement.

A complete report on the operations of the Coffee Agreement during 1965, as required by the International Coffee Agreement Act of 1965, was submitted to the Congress on January 15, 1966.

E. TIN

At the request of the International Tin Council, a United Nations Tin Conference was held at U.N. Headquarters, New York, from March 22 to April 14, 1965. The Conference drew up the text of the Third International Tin Agreement, to come into force upon expiration of the 5-year agreement which had been in effect since July 1, 1961. This was the first negotiating conference convened by the U.N. since the establishment of the UNCTAD institutions and formally held under the aegis of UNCTAD.

The United States participated in the negotiations with a view to possible accession to the agreement. Without exception, the principal issues before the Conference were settled in terms acceptable to the United States. The two special problems which had to be resolved to its satisfaction if it were to consider joining the agreement were the provisions on stockpile disposals and the criteria for accession.

F. GRAINS

The United States in 1965 continued to participate in the International Wheat Agreement and the United Kingdom Grains Agreements in 1965.

The basic purpose of the International Wheat Agreement of 1962 is to assure supplies of wheat and wheat flour to importing countries, and markets for exporting countries, at equitable and stable prices; to overcome the adverse effects of surpluses and shortages; to encourage consumption and promote expanded trade in wheat, and to further international cooperation on wheat trade problems. Although dissatisfied with the effectiveness of the operation of the agreement, the United States agreed to its 1-year extension to July 1966 while striving in the Kennedy round to negotiate a new international grains arrangement.¹

The United States was similarly disappointed with the operations of the United Kingdom agreements negotiated in April 1964² and expressed its dissatisfaction at the annual review held in London in December 1965. At that meeting, the United States was joined by other parties to these agreements in insisting that the United Kingdom take effective remedial measures to fulfill its obligations under the agreements.

V. SPECIAL TRADE PROBLEMS

A. CASES UNDER THE ADJUSTMENT ASSISTANCE AND ESCAPE CLAUSE PROVISION, AND THE NATIONAL SECURITY PROVISION

During 1965, the Tariff Commission completed 11 investigations involving tariff adjustment or adjustment assistance under provisions of the Trade Expansion Act of 1962. These provisions authorize the President to increase tariffs or provide adjustment assistance to an industry, firm, or group of workers after an investigation by the Tariff Commission and upon its report that as a result in major part of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to be the major factor in causing or threatening serious injury to the industry, firm, or workers producing a like or directly competitive product.

One investigation was instituted during 1965 at the request of a firm seeking determination of eligibility to apply for adjustment assistance. The product involved was birch and lauan plywood door skins. The Tariff Commission reported to the President that, being equally divided, it made no finding on whether as a result in major part of concessions granted under trade agreements, this product was being imported into the United States in such increased quantities as to cause serious injury to the firm (October 29, 1965). The investigation was conducted under section 301(c)(1) of the Trade Expansion Act.

Early in 1965, two investigations instituted in 1964 by industries requesting tariff increases—on canned mushrooms and ice skates—resulted in unanimous decisions by the Commission that increased imports of these products were not due, in major part, to trade-agreement concessions. Consequently, the U.S. industries did not

¹ Kennedy round negotiations activity relating to grains is discussed in the sec. II of this report.

² Described in the Ninth Annual Report of the President on the Trade Agreements Program for 1964:

qualify for either higher tariff or adjustment assistance under section 301(b) of the 1962 Trade Expansion Act. The Commission's reports were issued January 27 and February 19, respectively.

Escape-clause cases are subject to certain review provisions of the TEA. Section 351(d)(1) of the act directs the Tariff Commission to keep under review and to report annually to the President on developments regarding products on which tariff adjustment action is in effect. This same section under (d)(2) provides for the institution of a formal investigation by the Commission, on its own motion or upon the request of the President, regarding the probable economic effect on the industry concerned with the reduction or termination of an increased duty or other import restriction imposed under the escape-clause procedure.

During the year 1965, the Tariff Commission submitted in compliance with section 351(d)(1) two annual reports to the President reviewing developments with respect to cotton typewriter cloth and wilton and velvet carpets. No decision was made by the President as to the disposition of these commission reports.

Six formal investigations requested by the President earlier were completed in 1965 in accordance with section 351(d)(2). These reports by the Commission covered watch movements (March 5, 1965), stainless-steel table flatware (April 14, 1965), safety pins (May 17, 1965), clinical thermometers (May 27, 1965), lead and zinc (June 8, 1965), and sheet glass (June 11, 1965).

In its report on lead and zinc commission found that termination of the quotas would not likely have a detrimental effect on lead and zinc producers under conditions then present in the trade. The President on October 2, 1965, announced immediate termination of the quotas on lead and zinc ore and concentrates with termination 30 days later on metals. No decisions were made in 1965 with respect to the other five cases.

National security provision

At the beginning of 1965, three investigations were being conducted by the Office of Emergency Planning (OEP) under the national security Provision of the Trade Expansion Act. This provision authorizes the President to adjust imports if he receives a report from the Director of OEP following an investigation, that imports of the product involved are threatening to impair the national security. The three investigations were on textile and textile products, tungsten mill products, and antifriction bearings. On September 23, 1965, the Director completed investigation on one of these petitions. He found that imports of tungsten mill products were not threatening the national security. At year's end, the investigation of textile and textile products and antifriction bearings, instituted in 1962 and 1964, respectively, were still in process together with an investigation of watch movement imports initiated April 5, 1965, in accordance with section 232(b) of the Trade Expansion Act to determine the effects on the national security.

B. ACTIONS UNDER SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT

Section 22 of the Agricultural Adjustment Act directs the President to regulate the importation of commodities whenever he finds that such importation tends materially to interfere with any domestic pro-

duction control, marketing control, price support or other agricultural commodity program. In 1955, the contracting parties granted a waiver making it possible for the United States to maintain such imports regulations despite conflict with GATT obligations.

Under section 22, the United States currently maintains regulations on wheat and wheat products, cotton of certain specified staple lengths, cotton waste and cotton picker lap, peanuts, and certain manufactured dairy products. In 1965, no action was taken by the President under the provisions of the section.

C. COTTON TEXTILES

The Long-Term Arrangement on Cotton Textiles (LTA) was negotiated in 1962 by the GATT Cotton Textiles Committee. The United States proposed this arrangement with a view to insuring a more orderly development of trade than had occurred in the 1950's when the United States, as one of the few "open" markets bore the brunt of the sharply rising exports from new suppliers in the developing areas. The LTA provides for growing opportunities for cotton textile exports from developing countries able to produce these products efficiently, while providing for avoidance of disruption of established markets in importing and exporting countries. Specifically, it requires developed countries with import quota restrictions inconsistent with GATT to reduce such restrictions progressively and it authorizes importing countries to initiate restraint on imports of particular products from particular countries. The minimum restraint levels are determined by a formula based on recent performance, and must be increased by at least 5 percent if restraints are continued for more than a year, except that growth may be less than 5 percent in special circumstances for the first year a restraint is renewed. In addition, the LTA allows for bilateral agreements between exporting and importing countries.

The Cotton Textiles Committee meets at least once each year to review the operation of the arrangement. It met in Geneva, December 6-10, 1965, to conduct a "major review," that is called for in article 8(c) of the arrangement. All 29 participating countries were represented.

The Committee had before it a special study, prepared by the Secretariat, on recent trends in world production and trade in cotton textiles. This background study showed that, over the life of the arrangement, world production of cotton textiles had remained relatively static, as had per capita consumption in the developed countries, but that world trade had continued to expand, although at a slower rate than previously. The developing countries had figured more prominently in this expansion of trade than industrialized countries. Imports into the participating countries of Western Europe and North America increased with the developing countries accounting for a rapidly expanding share of this growth.

As in the past, this review of the arrangement revealed differing judgments as to whether the arrangement was accomplishing its purposes. Representatives of the developed importing countries generally regarded the arrangement as a useful and workable framework for resolving the difficult and persistent problems of trade in cotton textiles. There was considerably less satisfaction with the working of the arrangement on the part of less-developed exporting

countries. In particular, they noted the reduced rate of growth of their exports since the LTA went into effect and the right of unilateral determination of "market disruption" allowed importing countries by the LTA. They felt the market disruption provision had been used too freely and too often, by importing countries, particularly the United States, which does not employ import quotas.

The U.S. delegate's major statement pointed to the increasing participation of the developing countries in world trade as evidence that LTA has, in fact, led to expanded market opportunities for these countries. It pointed out the substantial increase in U.S. imports and stressed the shift in U.S. policy away from the restraints authorized under article 3 of the LTA toward the use of bilateral agreements under article 4, which offer exporting countries more favorable conditions to develop their exports by assuring stability and growth. It urged continuation of the LTA without change so as to perpetuate the atmosphere of confidence and the framework of cooperation between importing and exporting countries.

It was not possible to reduce the points stressed by various countries into any single brief set of conclusions to which all could agree. The Chairman's summation, carried in the report of the meeting, is simply a statement from the Chair which identified certain general points which had emerged (chiefly points highlighted in his own introductory statement evaluating the arrangement, which were later endorsed, on a selective basis, by various members). These are:

(1) Despite restrictions, there has been an increase in the imports of cotton textiles into the industrial countries under the LTA. The rate of growth was less, however, than during the 1950's.

(2) There is still an uneven distribution of exports from developing countries among the various import markets.

(3) There is serious concern that widespread restrictions continue to be applied to trade in cotton textiles, particularly in view of the trade needs of the developing countries.

(4) There may be some risk that the breathing space which the LTA was intended to give, to permit the industrial countries to adapt to new trading conditions, may in the long run change the comparative advantage which several developing countries have had in certain lines of cotton textile production. As the efficiency of the industry in developed countries improves, it would be logical to expect more liberal access to these markets.

(5) There is some danger that the mere existence of imports from developing countries be taken as *prima facie* evidence of market disruption.

(6) Restraints in one market tend to divert trade to other more open markets; hence countries with relatively open markets may have difficulties in maintaining liberal import policies where restraints continue to be widespread.

(7) Since consumption in developing countries is likely to grow substantially with rising populations and standards of living, liberalization of import restrictions by these countries should be considered.

(8) There was broad agreement with the Chairman's suggestion that the Kennedy round negotiations aim at a *modus vivendi* in trade in cotton textiles, and that governments actively negotiate to achieve the highest possible degree of liberalization.

D. UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS TRADE AGREEMENT

On January 16, 1965, President Johnson and Prime Minister Pearson of Canada signed the Agreement Concerning Automotive Products Between the Government of the United States and the Government of Canada. Implementing legislation, titled the "Automotive Products Trade Act of 1965" was passed by the Congress and signed by the President on October 21, 1965.

The objective of the agreement was the creation of a more efficient organization of the North American automotive industry through: (1) the expansion of the automotive products market in the two countries; (2) the reduction of barriers of all kinds to trade in automotive products between the two countries, and (3) the development in the automotive industries of the two countries of conditions in which market forces would operate effectively to attain the most economic pattern of investment, production, and trade. An underlying objective was to strengthen economic relations between the United States and Canada.

To achieve these purposes, the agreement called for the elimination of duties on each others original automotive equipment products, including new automobiles themselves. Also included were provisions for consultation and for review and consideration of further steps that might be taken to realize in full the objectives of the agreement.

The Automotive Products Trade Act authorized the reduction of the relevant tariffs to zero on Canadian products; provided for the making of similar automotive agreements with other countries, and established special procedures for firms and workers to obtain adjustment assistance if the tariff changes resulted in temporary dislocation. The act also calls for an annual report to the Congress on the implementation of the bill.

APPENDIXES

APPENDIX A

LIST OF KENNEDY ROUND PARTICIPANTS (50)

Linear (15)

Austria
Belgium
Denmark
Finland
France
Germany (Federal Republic of)
Italy
Japan

Luxembourg
Netherlands
Norway
Sweden
Switzerland
United Kingdom
United States

Nonlinear (35)

Argentina
Australia
Brazil
Canada
Ceylon
Chile
Cyprus
Czechoslovakia ¹
Ghana
Greece
Iceland
India
Indonesia
Ireland ²
Israel
Ivory Coast
Jamaica
Malta

New Zealand
Nicaragua
Niger
Nigeria
Pakistan
Peru
Portugal
Poland
South Africa
Spain
Togo
Trinidad and Tobago
Turkey
Uganda
United Arab Republic
Uruguay
Yugoslavia

¹ Not negotiating with United States.

² Not a member of the GATT.

NOTE.—Some of the participants are negotiating on behalf of dependent territories, some of which are claimed to be LDC's.

APPENDIX B

REPORT OF THE UNITED STATES DELEGATION TO THE TWENTY-SECOND SESSION OF THE CONTRACTING PARTIES TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE, GENEVA, SWITZERLAND, MARCH 1-MARCH 25, 1965

(Submitted to the SECRETARY OF STATE by Herbert F. Propps, Deputy United States Representative; prepared by Shepard C. Lowman)

I. INTRODUCTION

The General Agreement on Tariffs and Trade (GATT) is the principal international trade agreement to which the United States and other major trading nations adhere. The GATT developed out of post-World War II proposals by the United States for a constructive, nondiscriminatory solution of international trade problems. The number of countries which have become contracting parties to the resulting international trade agreement has grown from 23 to 66, and a number of other countries have acceded provisionally or maintain special relations with the GATT.

The GATT may be reduced to four essentials. First, the General Agreement contains tariff "schedules", or lists of "concessions" (i.e., named products for which, by agreement, specified tariff treatment is to be accorded), with separate schedules for each participating country or "contracting party". Second, there is a code of agreed rules, or "general provisions", to guide the import and export trade practices of the contracting parties. Third, through periodic meetings of representatives of the participating countries, GATT provides a broad international forum for the discussion and settlement of mutual problems of international trade. Finally, the new Part IV of the General Agreement makes special provision for dealing with the trade problems of the less-developed countries.

Sessions of the Contracting Parties, which have been held approximately every year since January 1, 1948, when the GATT came into effect, have come to be recognized as the principal forum for consideration of international trade problems. The United States has participated in every session.

Between sessions, the work of the Contracting Parties is carried on by the Council of Representatives of the Contracting Parties, by expert groups, and by working parties and committees.

II. SUMMARY OF THE 22ND SESSION

The Contracting Parties to the General Agreement on Tariffs and Trade (GATT) held their 22nd Plenary Session at Geneva, Switzerland, from March 1 through March 25, 1965.

The Session had an agenda of forty-one items. Matters receiving major attention were the trade problems of the less-developed countries, the United States-Canadian automotive agreement, regional association agreements (particularly the Yaounde Convention between the European Economic Community and eighteen African states), the United Kingdom import surcharge and various other restrictions on trade maintained by GATT contracting parties.

Since the preceding general session of GATT, negotiations had been concluded to establish a new Part IV to the General Agreement dealing with the special trade problems of the less-developed countries. In addition, a new Committee on Trade and Development was established early in 1965 to oversee the implementation of Part IV and to undertake other activities concerned with less-developed country trade. This Committee began its work during the 22nd Session, holding a series of meetings on such subjects as identification of products of particular interest to less-developed countries, promotion of trade among less-developed countries, possible extension of trade preferences from developed to less-developed countries, special problems concerned with primary commodities, development plan studies, adjustment assistance programs of developed countries, and the operation of the GATT Trade Promotion Center. Due to the complexity of these matters, the Committee's actions during the session were in the main preliminary and organizational. Sub-groups for future detailed work were created and work programs were drawn up. When the status of the Committee's work was discussed in the general session, the unanimous view was that the Committee was off to a good start. Spokesmen of many less-developed countries stressed in the plenary discussion the importance these countries attach to the work of the Trade and Development Committee.

The Session also gave detailed consideration to the United States-Canadian Automotive Products Trade Agreement. In a special working party established to discuss this matter, the United States described the agreement as intended to facilitate the integration of the North American automotive industry and to permit efficient production on the basis of specialization. The United States declared that the agreement would not have trade diversion effects, and would thus not injure third countries. The United States recognized, however, that the provisions of the agreement affording Canada preferential tariff access to the United States market were technically inconsistent with the GATT and that if the agreement were to be implemented in the manner foreseen the United States would need a waiver of certain of its obligations under the General Agreement.

Regional economic arrangements were also a major topic. Periodic reports were received from such groupings as the European Economic Community, the European Free Trade Association, and the Latin American Free Trade Association. A major point of controversy arose in the discussion of the Convention of Association between the European Economic Community and eighteen African States. This agreement was criticized by some Contracting Parties as being inconsistent with GATT provisions and causing trade damage to third countries. The signatories to the agreement defended it against both charges. It was agreed to examine the agreement in detail in a special working party which began, but did not complete, its work during the session.

The Session also considered the status of the Kennedy Round of Trade Negotiations on the basis of a status report by GATT Director General, Eric Wyndham White.

III. THE EXPANSION OF TRADE OF THE LESS-DEVELOPED COUNTRIES

A. THE COMMITTEE ON TRADE AND DEVELOPMENT

The Committee on Trade and Development held a series of meetings during the 22nd Session. Its activities were also the subject of plenary debate on the basis of a report which was approved at the final meeting of the session.

The Committee was established in February, 1965, at the time of the signature of the new Part IV of the General Agreement dealing with the special trade problems of the less-developed countries. At the same time, Committee III, the Action Committee, the Preference Working Party, and the Committee on the Legal and Institutional Framework of GATT in Relation to Less-Developed Countries were eliminated. The new committee has the following terms of reference.

1. To keep under continuous review the application of the provisions of Part IV of the General Agreement;
2. To carry out, or arrange for, any consultations which may be required in the application of the provisions of Part IV;
3. To formulate proposals for consideration by the Contracting Parties in connection with any matter relating to the furtherance of the provisions of Part IV;
4. To consider any questions which may arise as to the eligibility of a contracting party to be considered as a less-developed contracting party in the sense of Part IV and to report to the Contracting Parties;
5. To consider, on the basis of proposals referred to it by the Contracting Parties for examination, whether modification of or additions to Part IV are required to further the work of the Contracting Parties in the field of trade and development and to make appropriate recommendations;
6. To carry out such additional functions as may be assigned to the Committee by the Contracting Parties.

Membership on the Committee is open to all Contracting Parties and currently stands at 51. The Committee thus comes close to being a GATT Committee of the Whole. Its chairman is Ambassador K. B. Lal of India.

The discussions in the Committee during the 22nd Session dealt primarily with procedural and organizational questions relating to its future work program. The main topics dealt with were the following:

- (1) *Examination of Products of Export Interest to Less-Developed Countries.* Since the basic task of the Committee is to help expand the exports of less-developed countries, identification of products of special interest to less-developed countries is obviously of key importance to guide the Committee in its work.

The Committee agreed to establish a special working group with the following terms of reference:

to examine those products in which less-developed countries have indicated an interest in the context of Part IV of the General Agreement;

to submit to the Committee on Trade and Development its findings and recommendations with a view to providing guidance to contracting parties as to their work under Part IV of the General Agreement in respect of products of particular export interest to less-developed countries. Any list so established would not be exhaustive and could be supplemented from time to time.

It should be noted that lists compiled will be illustrative and not binding: i.e., decisions as to whether the commitments section of Part IV applies to a particular product will be reached on an *ad hoc* basis, and not necessarily on the basis of the lists to be drawn up.

(2) *Reporting Procedures.* The Committee agreed on reporting procedures to be followed in connection with the new Part IV. Contracting parties are requested to submit reports on actions taken by them pursuant to the new provisions; the Secretariat will also circulate notifications received in cases where contracting parties are unable to carry out the actions foreseen in Part IV. The Secretariat is also charged with submitting a periodic report summarizing the current situation concerning tariffs or quota restrictions affecting items of interest to less-developed countries.

(3) *Measures for Assisting Adjustment in the Structure and Pattern of Production and Trade.* The Committee expressed appreciation for reports furnished by a number of industrialized countries, including the United States, on their adjustment assistance programs. (Part IV mentions adjustment assistance as one possible type of measure which could give greater scope for the development of imports from less-developed countries.) The Committee agreed that a detailed examination of adjustment assistance measures could best be carried out by a group of experts nominated by governments, and asked the Executive-Secretary of the GATT to convene such a group.

(4) *Development Plan Studies.* For some time, the GATT Secretariat has been studying the development plans of selected less-developed countries, with particular attention to the role of the export sector in the overall development program, including an assessment of possibilities and prospects. The Committee agreed to appoint an experts group to consider secretariat studies of the development plans of Kenya, Uganda, and Nigeria, with the aim of recommending concrete measures to promote the development of the export potential of those countries and for facilitating access to export markets for the products of the industries thus developed.

(5) *International Commodity Problems.* Committee discussion of this item was marked by the stress placed by many of the less-developed countries on the significance to their economies of developments affecting tropical primary commodities. The Committee agreed to establish a Working Group on Commodities to consider proposals for attaining stable, equitable and remunerative prices for exports of the primary products of particular interest to less-developed countries, and for providing improved and acceptable conditions of access to world markets for such products. The Working Group will base its work on specific proposals from governments of contracting parties, and will give full account to discussions and activities elsewhere concerning primary commodities.

(6) *Proposals for Amending the General Agreement.* During the negotiation of the new Part IV, several proposals were advanced for amendments to GATT Article XVIII and XXIII. Study of these proposals was deferred until completion of the negotiations on Part IV. The Committee established a Working Group to examine the proposed amendments and to report back by October 1965.

(7) *Preferences in Favor of Less-Developed Countries and Expansion of Trade Among Them.* The Committee discussed at some length the best manner of organizing future work on these subjects. Some delegates considered that possible preferences among less-developed countries should be considered in the context of a broader examination of possibilities for expanding trade among less-developed countries, and that this general subject should be considered separately from consideration of the possibility of preferences from developed to less-developed countries; others felt that both types of possible preferences should be considered together. The United States expressed doubt about the desirability of early resumption of GATT discussion of preferences in view of the forthcoming UN exercise on the same subject in May. The final conclusion reflects the United States view on timing, but also takes into account the strong desire of the less-

developed countries and most other developed countries for further GATT attention to the question of preferences. Two working groups were established to begin work in June. The first is to examine the problems involved in the expansion of trade among less-developed countries, with particular reference to the possible role of preferences and to examine any specific proposals on the subject submitted by governments. The report of this group will be transmitted to the Committee and also to the working group on preferences. The terms of reference for this latter working group require it (1) to examine proposals submitted for the extension of preferences by industrialized countries to less-developed countries taking into account discussions in other international bodies, (2) to consider the findings of the Working Group on the Expansion of Trade among Less-Developed Countries in regard to the exchange of preferences *inter se*, (3) and report appropriate findings and recommendations by October, 1965.

(8) *Assistance in Export Promotion.* In February, 1965, a Group of Experts examined the progress made by the GATT Trade Center established in mid-1964 to provide assistance in the fields of commercial intelligence and trade promotion to less-developed countries, including countries which have not adhered to GATT. Despite its short life and small staff, the Center had already demonstrated its usefulness. In view of the growing demands for the practical type of service which the Center offers, the Experts recommended a substantial increase in the resources available for such work, including the preparation of several new publications. The Committee on Trade and Development supported these recommendations.

Henceforth, the Center will put increasing emphasis on helping less-developed countries with their export promotion problems. Priority is generally to be given to services capable of producing concrete results in the relatively near term. The case study approach will also be utilized where appropriate, and the Center plans to utilize the facilities offered by national trade centers and graduate schools of business administration in responding to some of the problems submitted by developing countries. In the area of trade information, developing countries urged that future work be focused increasingly on market opportunities in industrialized countries and that the latter make every effort to make an increasing amount of such information available to the Center for prompt dissemination to less-developed countries.

The importance of training for nationals from less-developed countries was widely emphasized. The Center is, for the time being, assisting applicants to find suitable training in programs offered by individual developed countries, including the United States. While it was not considered feasible for the Center to develop a training course in Geneva during 1965, the possibilities for instituting such a program later will be explored by the Secretariat.

(9) *Residual Restrictions Affecting Products of Particular Interest to Less-Developed Countries.* A working group was established to examine information concerning residual import restrictions being maintained on the trade of less-developed countries inconsistently with GATT, and to transmit appropriate findings and recommendations to the Committee concerning possible action to be taken to secure the elimination of such restrictions.

When the report of the Trade and Development Committee was discussed in the plenary session, many less-developed countries underlined the importance they attached to the Committee's work. Several delegates indicated that in their eyes the degree of success achieved by the Committee would be a yardstick for measuring the utility of GATT as a whole. There was a general consensus that in its meetings during the 22nd Session, the Committee had made an excellent start in taking the organizational and procedural steps which were necessary preliminaries to its future program of work.

B. REGIONAL LIAISON ARRANGEMENTS

In the past, the Executive Secretary has put forward proposals for regional liaison arrangements, including a possible increase in visits by Secretariat officials to the governments of contracting parties, the possible establishment of regional liaison offices, and the possibility of regional meetings of contracting parties.

Though a discussion of such arrangements was originally on the agenda for the 22nd Session, the Contracting Parties agreed to postpone consideration of this item until the newly established Department on External Relations within the Secretariat had had time to study the question of liaison arrangements and to submit a report on its findings through the Executive Secretary.

C. TRAINING PROGRAM AND TECHNICAL ASSISTANCE

The Executive Secretary's report on the training program and technical assistance was noted by the Session. The Secretariat was commended by many speakers for the manner in which it had carried out these activities and several less-developed countries urged that the program be expanded when the Secretariat found such a step feasible.

The inservice program in Geneva has been attended by 146 officials from 54 different countries since its inception in 1955. The course is designed primarily to assist the participants, who are almost all drawn from less-developed countries, to acquire in the shortest possible time essential knowledge and information needed to carry out governmental work in international trade and for the conduct of intergovernmental trade relations. Two courses of about six months duration are offered each year, one for French-speaking participants and another for English-speaking officials. The 19th course which began February 8, 1965, has fifteen participants; this is a somewhat larger number than in the past and the Executive Secretary will consider in the light of experience whether the expansion should be maintained in the future.

Joint GATT/Economic Commission for Africa courses in French and English are also conducted in Africa twice a year for periods of four to six weeks. Thus far, 104 participants from 24 countries have attended. In addition to lectures on commercial policy, these courses include discussions of practical trade problems in the host country. In 1964, the courses were held in Kenya and Cameroon.

The Secretariat also provides technical assistance in connection with commercial policy problems of less-developed countries. In 1964, one such request involved the sending of a Mission to the country concerned.

D. SPANISH TEXT OF THE PROTOCOL AMENDING GATT TO INTRODUCE A NEW PART IV ON TRADE AND DEVELOPMENT

The Final Act of the second special session on February 8, 1965, authenticated the text of the protocol introducing Part IV in the French and English languages and provided that the version in Spanish would be authenticated at the 22nd Session. The Spanish text was authenticated by a decision of the Contracting Parties on March 19.

IV. THE CURRENT TRADE NEGOTIATIONS—REPORT BY THE CHAIRMAN OF THE TRADE NEGOTIATIONS COMMITTEE

Mr. Wyndham White, in his capacity of Chairman of the Trade Negotiations Committee, presented a report on progress in the Kennedy Round negotiations since the 21st Session. He said there had been considerable and gratifying progress in organizing the negotiations. The most outstanding event had been the tabling, on 16 November, 1964, of the exceptions lists which marked the inauguration of negotiations in the industrial field. The obverse of the exceptions lists was, of course, the offer of a 50 percent reduction of industrial tariffs over a very large segment of the trade of the countries involved. This action represented the most impressive and substantial prospect of tariff reduction which had ever been undertaken. Another significant advance had been the recent agreement, in the Trade Negotiations Committee, on procedures as regards agricultural products. In terms of the new procedures for agriculture, substantive negotiations would shortly commence on trade in cereals on the basis of elements, which had already been defined, and of specific negotiating proposals, to be tabled by interested governments in the course of the following month. As from the middle of September, negotiations would proceed, again on the basis of specific proposals, on other agricultural commodities. Thus arrangements have now been completed which would provide that the negotiations would cover the whole field of international trade.

V. NON-TARIFF RESTRICTIONS ON TRADE

A. BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS

(1) *Reports on Consultations*

The Contracting Parties adopted reports on consultations held during 1964 with eleven countries (Brazil, Ceylon, Finland, Ghana, Greece, India, Israel, New Zealand, Pakistan, South Africa, and Spain) which impose import restrictions under either Article XII or Article XVIII: B to protect their balance of payments.

During the consultations, which were conducted by the Committee on Balance-of-Payments Restrictions, the United States representatives continued their efforts to encourage the consulting countries to relax and eliminate their restrictions as rapidly as possible and to ensure that, in cases where restrictions were still necessary, they did not discriminate against American goods. The United States representatives also urged, in appropriate cases, that the consulting countries, when relaxing restrictions, avoid the adoption of measures such as increased customs duties and new internal taxes bearing heavily on imports which, whether or not consistent with the GATT, have the effect of offsetting the benefits to be expected from liberalization.

In the consultation with *South Africa*, the United States and most other representatives maintained that the present level of import restrictions was unwarranted considering the strength of South Africa's balance-of-payments and currency reserve positions. They urged more rapid liberalization and recommend that the South African authorities proceed to draw up a specific plan and schedule for the relaxation and elimination of remaining restrictions.

Finland and *New Zealand* were encouraged to continue progress they have been making in reducing the scope of their import restrictions. In the case of Finland, attention was also drawn to the need for further progress in reducing discrimination including that arising from bilateral arrangements.

The representative of *Israel* indicated that his Government was carrying out a review of all products still remaining under quantitative import control. This review would be completed by October 1965, and it was expected that by that time only a small number of products would remain under licensing as a protection to "infant industries."

This year *Spain* consulted for the first time in GATT on its import restrictions maintained for balance-of-payments reasons. The United States representative urged Spain to eliminate remaining restrictions as rapidly as possible and, in the meantime, to establish and progressively increase global quotas in place of discretionary licensing where full liberalization was not immediately possible.

In consultations with *Brazil*, *Ceylon*, *Ghana*, *Greece*, *India* and *Pakistan*, the United States representatives took note of the special problems which those countries faced in pursuing their programs of economic development. They stressed, however, the danger of fostering uneconomic production through excessive use of import restrictions, the need to control domestic inflation and the disadvantages of reliance on bilateral trade arrangements. The United States representatives raised with Brazil the question of discrimination against American exports resulting from the exemption of imports from other members of the Latin American Free Trade Association from the application of prior deposit requirements adopted to safeguard the balance of payments. The Brazilian representative recognized that this had given rise to difficulties in the past but expressed the hope that these might be avoided in the future through early elimination of all prior deposit requirements.

(2) 1965 Consultation Arrangements

The 22nd Session approved a Council document which suggested that arrangements be made for balance-of-payments consultations in 1965 for the following contracting parties: Burma, Chile, Finland, Iceland, Indonesia, Israel, Ivory Coast, New Zealand, South Africa, Spain, Togo, Tunisia, Turkey, United Arab Republic, Uruguay, and Yugoslavia.

It was suggested that consultations take place at two series of meetings, one in the spring and one in the fall of 1965.

(3) Chilean Import Restrictions and Surcharges

Consultations were conducted with Chile under Article XVII:12(b) of the General Agreement on the import restrictions maintained by Chile for balance-of-payments reasons. The Committee on Balance-of-Payments Restrictions also examined the balance-of-payments aspects of the Chilean request for a further extension of the waiver originally granted on May 27, 1959 relating to Chilean import surcharges.

The Committee examined Chile's balance-of-payments position and prospects with particular attention to the new Chilean Government's efforts to achieve internal stabilization. It was noted that equilibrium in the balance of payments was achieved in 1964 by means of a flexible exchange rate policy and large foreign loans. It was agreed that Chile's balance-of-payments position justified a further extension of the waiver. Since the Chilean Government had submitted to its legislature a proposal for a new tariff, the waiver granted by the Contracting Parties authorized the continued maintenance of the import surcharges until the

entry into force of the new tariff, or December 31, 1966, whichever was earlier, subject to the terms and conditions specified in the original waiver Decision of May 27, 1959.

While expressing appreciation for Chile's difficult economic situation, the United States Representative stressed the need for the Government of Chile to follow policies that would make possible significant reductions in the overall level of restrictions. He urged that the exceedingly complex system of import restrictions be examined, particularly with respect to the documentation required to effect imports, since the system constituted a considerable burden on exporters to Chile.

B. RESIDUAL IMPORT RESTRICTIONS

Under the procedures adopted by the Contracting Parties at the Seventeenth Session, countries were invited to submit lists of any import restrictions that they are applying contrary to the provisions of GATT and without having obtained the authorization of the Contracting Parties. At the current Session, the Contracting Parties carried out a review of the list of restrictions notified to the GATT by member countries. Several Contracting Parties expressed concern that countries which had no balance-of-payments reasons for maintaining restrictions still continued to do so contrary to the provisions of the General Agreement.

It was decided to keep this item on the agenda and bring the notifications by contracting parties up-to-date so that the remaining restrictions on imports could be examined at the next session of the Contracting Parties. The hope was expressed that in the interim further progress would be made in the removal of these restrictions.

The Trade and Development Committee was also requested to examine the matter from the viewpoint of the effect of the restrictions on the trade of the less-developed countries.

C. ARTICLE XVIII ANNUAL REVIEW UNDER PARAGRAPH 6

Paragraph 6 of Article XVIII requires an annual review of measures taken under Sections C and D of that Article. No countries were applying measures under Section D. Ceylon was the only country applying import restrictions under Section C.

The Contracting Parties had granted releases to Ceylon in the past for such restrictions based on mixing regulations designed to support the development of local industries pursuant to Ceylon's economic development plan.

The delegate from Ceylon reported that the only release in operation was that on a category of textile products. This release was being used to facilitate the switch-over from a manufacturing process utilizing twisted yarns to one utilizing single yarn. He expressed the hope that such mixing regulations would no longer be required by the end of 1968.

The oral report by the delegate from Ceylon was accepted as fulfilling the requirements of Article XVIII:6 and, as such, was noted by the Contracting Parties without discussion.

D. CONSULAR FORMALITIES

In 1962, the Contracting Parties had recommended that governments still maintaining consular formalities should take steps to remove them. To this end, a review of the consular formalities still being maintained was carried out at the 22nd Session. Several delegations, including the United States, noted that there had been some progress in the removal of these formalities and that several countries were in the midst of studies regarding the implementation of the Recommendation by the Contracting Parties. This progress was welcomed and hope expressed that those countries still applying consular formalities would hasten their removal.

The Contracting Parties decided that this item would be included on the Agenda of the next Session. The countries still maintaining consular formalities were invited to report on the progress achieved.

E. ARTICLE XX(J)—REVIEW OF NEED FOR THIS SUB-PARAGRAPH

Article XX(j), and an earlier provision of Article XX which it superseded, have permitted contracting parties to impose trade controls for reasons of short supply. The provisions were intended for use in meeting conditions of post-war readjustment which have now ceased to exist.

A review of the need for continued retention of paragraph (j) was held in May, 1960, and it was decided that the provision should be retained until 30 June 1965, with another review to be held prior to this expiration date.

At the plenary meeting on March 8, 1965, a number of contracting parties favored continued retention of the provision, pointing out that it had not been abused in the past and might be necessary for future emergencies. It was the consensus that the provision should be retained until 1970 when the need for it would again be reviewed. A formal decision to this effect was adopted by the Contracting Parties.

VI. REGIONAL ECONOMIC ARRANGEMENTS

The interest in and trend toward economic groupings and arrangements continued high and a substantial portion of the work of the contracting parties at the 22nd Session was concerned with such matters.

A. EUROPEAN ECONOMIC COMMUNITY (EEC)

(1) *Information furnished by the representative of the Commission*

The Contracting Parties took note of the information furnished by the representative of the Commission on the implementation of the Treaty of Rome as well as that supplied by the Government of Greece on the implementation of the agreement establishing an Association between Greece and the EEC.

The representative of the EEC stressed that the EEC's imports of industrial products had increased by 124 percent from 1958 to 1963. Agricultural imports had also risen in value by nearly three billion dollars.

He outlined the progress made in further institution of a customs union, pointing out that important progress was also being made in the coordination of short- and medium-term economic policies and of monetary policies. Coordination in other fields was advancing steadily if not spectacularly.

During 1964 progress was made towards a completed common agricultural policy, which now covers nearly 90 percent of the EEC's agricultural production. Of particular importance was an agreement on a common level of grain prices.

The representative of the EEC concluded with a description of measures taken by the Community to assist less-developed countries. These measures included duty reductions on products of interest to those countries.

During discussion of the EEC's report, several contracting parties pointed out that imports of agricultural products by the EEC had shown substantially less growth than imports of industrial products and expressed the hope that there would be further liberalization in the agricultural sector.

The Contracting Parties noted the information supplied by the Community.

(2) *Agreement of Association with Turkey*

The Agreement of Association between the European Economic Community and Turkey gave rise to considerable debate during the Session. The examination of this treaty by a working party in September 1964 had not resulted in a consensus regarding its conformity with GATT, notably Article XXIV covering the formation of customs unions.

In their opening remarks, the representatives of Turkey and the EEC stressed the great importance which they attached to the Agreement and stated their conviction that it conformed to the requirements of Article XXIV. They called attention to provisions to encourage development of the Turkish economy and affirmed their determination to move as rapidly as possible in elaborating a specific plan and schedule for the completion of a customs union. Both representatives volunteered to keep the Contracting Parties informed of developments in accordance with Article XXIV(7).

Several delegations felt the Working Party's examination of the Treaty should be resumed. The United Kingdom, in particular, considered that the Treaty was a new type of arrangement which had not been contemplated by the framers of Article XXIV, and it was not clear what the rights of contracting parties would be as Turkey (1) gradually eliminated its tariff in successive stages toward the Community and (2) reduced its tariff toward other contracting parties as it gradually adopted the Common External Tariff of the EEC. A brief consultation between the UK and Turkey on this problem did not produce a satisfactory solution, and the Session agreed to establish a working party under Article XXII(2) to consult on the question raised by the UK regarding the application of Articles XXIV(5)(a) and XXIV(6).

On the broader points at issue, the discussion was concluded by agreement on five points proposed by the Chairman: (a) to adopt the report of the Working Party; (b) to note the divergent views of contracting parties with regard to the compatibility of the Ankara Agreement with the General Agreement; (c) to note that the parties to the Agreement are prepared to provide further information on the plan and schedule for the formation of the customs union and, in particular, to provide the text of the Additional Protocol; (d) to keep the matter on the agenda of the Contracting Parties, so that at any time when any contracting party feels that it would be useful to resume the examination of the provisions and implementation of the Agreement, it could bring the matter forward for discussion either during the course of a session or at a meeting of the Council; and (e) to note that this procedure would not prejudice the responsibilities of the Contracting Parties under the General Agreement nor the rights of individual governments under relevant provisions of the GATT.

(3) Convention of Association with African and Malagasy States

The EEC-AOC Convention, and the question of its compatibility with GATT provisions, was the subject of preliminary discussion in the plenary. Subsequently, a special working party began a more detailed examination.

The plenary discussion revealed considerable differences concerning the merits of the convention and its compatibility with GATT. Several less-developed countries, particularly in Latin America, argued that the agreement does not conform with the GATT Article XXIV requirement for free trade areas that duties and other restrictive regulations of commerce be eliminated within a reasonable time on substantially all the trade between the constituent territories. These countries argued that the arrangement involved a series of bilateral preferential arrangements that would damage third countries. Some of these countries referred to a resolution unanimously approved last spring at the United Nations Conference on Trade and Development calling for the phasing out of discriminatory preferences.

Parties to the EEC-AOC agreement defended its compatibility with GATT, and urged contracting parties to suspend judgement until after detailed examination in the working party. With regard to the UN resolution, some of the associated countries pointed out that it called for phasing out of preferences only when adequate compensation was provided to the less-developed countries giving up the preferences, and that such compensation had not yet been arranged. Some signatories also argued that the agreement would not damage the trade interests of third countries.

The United States representative indicated that the United States shares some of the misgivings about the Convention mentioned by others, and that the United States looked forward to the working party as an opportunity to explore the relevant problems. The United States representative expressed satisfaction that the Convention does not require the associated states to apply protective or revenue duties and quantitative restrictions in a manner discriminating against third countries and expressed the hope that the associated countries would not in fact consider it desirable to practice such discrimination.

The Working Party held an initial meeting late in the session, and began detailed consideration of the Convention. It planned to resume its sessions in May.

(4) Association of Overseas Territories

The EEC informed the Contracting Parties that, having regard to Article 136 of the Rome Treaty, the EEC had adopted a decision which defines for a further period of five years the provisions for the association between the EEC and certain non-European countries and territories maintaining special relationships with France and the Netherlands.

These territories are:

St. Pierre and Miquelon, Comoro Archipelago, the French Somali Coast, New Caledonia and dependencies, Wallis and Futuna Island, French Polynesia, the Southern and Antartica territories, Surinam and the Netherlands Antilles.

The Contracting Parties agreed to broaden the terms of reference of the working party on the EEC Association with African and Malagasy States to consider these arrangements as well.

B. EUROPEAN FREE TRADE ASSOCIATION (EFTA)—VOLUNTARY REPORT

The spokesman for the EFTA described the continued progress made during 1964 in achieving a free trade area. Final elimination of industrial tariff barriers between EFTA member states is expected by the end of 1966.

The report emphasized the importance the EFTA places on continued active participation in the Kennedy Round and on the harmonious expansion of world trade.

The report noted the imposition in October of a 15 percent surcharge on imports by the United Kingdom for balance-of-payments reasons and the subsequent reduction of this surcharge to 10 percent effective 26 April 1965.

Australia asked whether the Swedish-Portuguese agricultural bilateral was the only such agreement which entered into force in the period. The EFTA spokesman answered in the affirmative.

The United States representative welcomed the speed with which the EFTA was moving forward and expressed his gratification at the constructive position being taken by the EFTA countries in the Kennedy Round.

C. LATIN AMERICAN FREE TRADE ASSOCIATION (LAFTA)

The Latin American Free Trade Association (LAFTA) presented a report on its activities during 1964. The report stressed the wide range of action taken during the year to broaden and strengthen the integration process among member states, both through trade liberalization and improvements in the institutional framework of the Association.

In October 1964, a fourth annual round of negotiations was held, further reducing customs duties and other import charges and restrictions on intra-LAFTA trade. The Treaty requires annual, cumulative reductions with respect to member countries averaging not less than 8 percent of the duties and charges applicable to third countries. To date, approximately 8,600 concessions have been granted. About 50 percent of the articles included in the liberalization program are products of the chemical and engineering industries, electrical apparatus and equipment, base metals and manufactures thereof. Concessions on agricultural commodities and products derived from the industrial processing of such commodities account for nearly 30 percent, the remaining 20 percent being made up of miscellaneous products. In response to a question from the Australian representative, the LAFTA spokesman stated that the Treaty provisions permitting retention of restrictions to protect domestic agricultural production had not been fully utilized, thus making possible the significant liberalization achieved in this sector.

The Montevideo Treaty also requires the negotiation of a Common Schedule listing products on which the member countries undertake by collective decision to eliminate all charges and other restrictions on intra-area trade before the end of a twelve-year transitional period. The Common Schedule consists of products which, in terms of the aggregate value of trade among member countries, constitutes not less than 25 percent during the first three-year period of the operation of the Treaty; 50 percent during the second three-year period; 75 percent during the third three-year period; and substantially all such trade before the end of the transitional period. In compliance with these provisions, the member countries held negotiations in 1964 in order to draw up the first Common Schedule.

Intra-area trade continued to expand and exports between member countries rose from \$298.7 million in 1961 to \$425.4 million in 1963, an increase of 42.4 percent. Although 1964 trade figures were not yet available, a further substantial trade expansion was expected on the basis of provisional data.

The LAFTA spokesman indicated that the Association had agreed to initiate a program for coordination of economic policies and the harmonization of foreign trade regulating machinery of the member countries. The need for such programs to supplement and strengthen the liberalization program had become increasingly apparent because of the diversity, within the area of the Association, of commercial policies toward third countries. Common guidelines and systems for the application of a joint commercial policy in the field of foreign trade, therefore, were to be adopted. It was intended to move toward the equalization of charges and restrictions applied on imports from third countries.

The report was noted by the Contracting Parties.

D. CENTRAL AMERICAN FREE TRADE AREA AND NICARAGUAN DUTY INCREASES

A Decision of the Contracting Parties dated October 25, 1951, taken pursuant to paragraph 10 of Article XXIV, entitled Nicaragua to claim the benefits of this Article in order to establish a free trade area with El Salvador. A similar decision dated November 13, 1956, entitled Nicaragua to claim the benefits of Article XXIV with respect to the establishment of a free trade area with Costa Rica, El Salvador, Guatemala and Honduras (none of which are Contracting Parties to the GATT). Nicaragua reports annually under these Decisions.

At the 22nd Session, the representative of Nicaragua supplied information on progress achieved in the program of Central American integration. He stated that trade liberalization for products originating in the area had been almost completed and noted in this connection that the Treaty for Central American Economic Integration, which provides for unrestricted intra-area trade within 5 years, entered into force on June 4, 1961. He also reported that intra-area trade had doubled since 1961 and was continuing to expand.

The five Central American Governments are also establishing a uniform Central American Customs Code. On November 23, 1961, Nicaragua received a three year waiver permitting it to increase duty rates on GATT concession items to the extent necessary to enable Nicaragua to adopt the new unified tariff. Under the terms of the waiver, such tariff increases were to be notified to the GATT before being put into force, and concessions which were infringed were to be renegotiated before November 23, 1964, or upon completion of the alignment of external customs duties, whichever was the earlier.

At the 22nd Session, Nicaragua submitted a report on the status of its negotiations related to the tariff alignment process. It noted in particular that with respect to rates of duty bound in GATT the harmonization had resulted on the whole in reductions rather than increases in duties. Since some items remained to be negotiated with the other members of the Central American Common Market, the Contracting Parties decided to extend the Decision of November 23, 1961, for an additional period of three years. The Nicaraguan Government reiterated its firm intention to renegotiate bound rates of duty in accordance with the terms of the original decision, upon completion of the alignment process.

E. EQUATORIAL CUSTOMS UNION (ECU)/CAMEROON

On 23 June 1959 the Governments of the Central African Republic, Chad, Congo (Brazzaville) and Gabon signed a Convention creating the ECU. These arrangements generally continued those existing prior to the independence of the four countries. The four original states signed a Protocol of Agreement with the Cameroon on 23 June 1961 extending the customs union to Cameroon and on 1 July 1962 the five states put into force a common external tariff. These arrangements were examined by a working party which reported to the Twenty-First Session.

A new treaty establishing a Central African Economic and Customs Union was signed in Brazzaville on 8 December 1964. This document was before the Contracting Parties.

Several contracting parties expressed their sympathy for these arrangements, remarking that they felt the developing countries could materially further their developmental efforts by joining together on a regional basis. It was noted that the new treaty was essentially a continuation of the arrangements provided for under the Conventions examined at the Twenty-First Session.

The Contracting Parties noted the comments made.

F. ARAB COMMON MARKET

The United Arab Republic submitted for the consideration of the Contracting Parties the text of an agreement designed to establish a common market between the Arab League States in the future.

The UAR representative stated that the agreement was designed to provide the best conditions for economic development through the establishment of complete economic unity. The agreement was signed on 6 June 1962 by Jordan, Syria, Morocco, Kuwait, and the UAR, and on 17 December 1963 by Yemen. It was ratified by Iraq on 30 January 1964. The agreement came into force on 30 April 1964.

The Contracting Parties agreed that contracting parties wishing to submit questions concerning the provisions or implementation of the Agreement should submit them to the secretariat by May 6, 1965 and that, when replies had been

received, the Council should appoint a working party to examine the agreement in the light of the relevant provisions of the GATT.

VII. TARIFF MATTERS AND WAIVERS

A. PERUVIAN SCHEDULE

On August 20, 1964 the Government of Peru instituted the application of a new tariff, superseding its 1948 tariff and a number of surcharges and levies (some of them of a temporary emergency character) then being applied to imports into Peru. Most of the new tariff duties exceed those bound in Peru's schedule of GATT concessions (Schedule XXXV). Accordingly, on September 25, 1964, the GATT Council established a working party to recommend procedures for the renegotiation of these concessions. This working party met during the 22nd Session and recommended a waiver decision authorizing the Government of Peru to maintain in effect, subject to certain conditions, the increased rates of duty provided in its new tariff pending completion of negotiations for the modification or withdrawal of concessions in Schedule XXXV on items to which the new rates apply. The conditions specified in the waiver included provision for negotiations or consultations with interested contracting parties pursuant to paragraphs 1-3 of GATT Article XXVIII, for the applicability to the negotiations of the Declaration of *de facto* application of Part IV of the General Agreement, and for the completion of the negotiations or consultations before the end of the twenty-third session of the Contracting Parties but in any case not later than March 31, 1966. The Contracting Parties approved the terms of the decision recommended by the Working Party.

B. URUGUAYAN IMPORT SURCHARGES

The Uruguayan Government had been granted a waiver in May 1961 which permitted, for balance-of-payments reasons, the imposition of import surcharges over and above the duty rates bound in the GATT. This waiver was extended on several occasions by the Contracting Parties. Important changes were made in the surcharges applied by Uruguay, and the Government of Uruguay requested a further extension of the waiver and its amendment to take account of these changes. Since careful and detailed examination of these surcharges and the balance-of-payments justification for their continued maintenance was essential, the Contracting Parties decided to extend the waiver of 8 May 1961 until the end of 1965 to permit such an examination in the framework of Uruguay's 1965 balance-of-payments consultations.

C. URUGUAYAN SCHEDULE

On August 13, 1964 the Uruguayan Government increased by 100 percent the "aforos" specified in the Uruguayan schedule of tariff concessions to contracting parties (Schedule XXXI). This increase was taken to adjust the incidence of the Uruguayan tariff which, though ad valorem in form, are levied on the basis of fixed values or "aforos".

Article II:6(a) of the General Agreement provides that the Contracting Parties may decide that a government may be authorized to increase specific rates, the "aforos" in this instance, where a change in the value of the currency warrants an adjustment in these specific rates. In this case, the Contracting Parties were advised that the rate of exchange applicable to most imports on October 10, 1949 (the date of the Annex Protocol) was \$1.90 per United States dollar and on August 14, 1964 the rate was \$16.40 per United States dollar. This constituted a reduction in the value of the Uruguayan peso of 793 percent. Accordingly, the Contracting Parties agreed that the Uruguayan increase in the "aforos" did not impair the value of the concessions provided for in the Uruguayan Schedule and authorized the maintenance of the increase in the "aforos".

D. SOUTH AFRICA/RHODESIA TRADE RELATIONS

After the dissolution of the Federation of Rhodesia and Nyasaland, the Governments of Southern Rhodesia and South Africa concluded, on 30 November 1964, a new agreement to govern trade relations between their two countries. The new agreement, which involves the extension of some new margins of preference and the enlargement of certain existing margins, was transmitted to the Contracting Parties at their 22nd Session.

It was decided that the matter could best be considered after detailed study by experts. A working party was therefore established to examine the new

agreement and report with any appropriate recommendations. The working party was also asked to review the operation of a Decision of 4 June 1960, which permitted the incidental increase in preferences on certain Federation goods imported into South Africa when the latter increased most-favored-nation rates of duty.

The working party was not able to complete its work at the Session and will therefore report at a later date to the GATT Council of Representatives.

E. UNITED KINGDOM TEMPORARY IMPORT CHARGES

A Working Party resumed its consultations with the United Kingdom on the import surcharges imposed in October 1964. The representative of the United Kingdom called attention to the announcement that the import charge would be reduced from 15 to 10 percent on April 27, 1965. The United Kingdom representative gave an analysis of trade developments since the temporary charge was first imposed and a report on his country's present economic situation. He reiterated his Government's unreserved intention that the import surcharges would be strictly temporary and would be removed as soon as possible.

The Working Party welcomed the decision by the United Kingdom to reduce the surcharges to 10 percent and expressed the hope that this remaining import surcharge could be eliminated shortly. In this connection, the Working Party emphasized the importance of restraining domestic demand in the United Kingdom so as to assist in achieving this objective; such action was necessary to free resources for export and assure the improvement in the United Kingdom balance-of-payments situation. Importance was also attached to the successful implementation of the incomes policy agreed upon by representatives of the United Kingdom Government, labor and management.

A request by less-developed countries for exemption from the surcharges for certain products they exported to the United Kingdom was not supported by the United States. The import surcharges were imposed by the United Kingdom for balance-of-payments reasons and the United States considered the best course for the United Kingdom was to take those measures necessary to improve its balance-of-payments position so that all the import surcharges could be removed as quickly as possible.

F. CEYLON—TEMPORARY DUTY INCREASES

Ceylon asked for a two-year extension of the Decision of 15 November 1962 authorizing it to maintain increased duties for balance-of-payments reasons. The IMF representative supported Ceylon's statement that its balance-of-payments difficulties remain. Japan spoke in support of the two-year extension and it was accorded without further discussion.

G. REPORTS UNDER WAIVERS

(1) *Australia/Papua-New Guinea*

Australia reported that no new measures had been taken under the terms of the waiver since the Twenty-First Session. The report contained statistics showing the development of trade in products covered by measures taken in earlier years. The report was accepted without discussion.

(2) *Rhodesia and Nyasaland/United Kingdom Territories*

The report by Rhodesia stated that no action had been taken under the waiver since the Twenty-First Session. The report was accepted without discussion.

(3) *United States Import Restrictions*

A Tenth Annual Report to the Contracting Parties was submitted by the United States under the Decision of 5 March 1955, which granted a waiver to the United States to exempt from the provisions of the GATT those import restrictions maintained under Section 22 of the Agricultural Adjustment Act, as amended. The waiver laid down certain reporting requirements on activities under Section 22, which the annual report is designed to meet.

A Working Party was formed by the Contracting Parties to examine the United States report.

In introducing the report in the Working Party, the United States Representative stated that since 1962 there had been no major changes in the export programs for the remaining four groups of commodities under import restrictions (wheat and wheat products; cotton of certain specified staple length, cotton waste and cotton picker lap; peanuts; and certain processed dairy products). Several

members of the working party asserted the length (10 years) the waiver had been in effect was too long; it was regrettable that there was no termination date; the present was a propitious time to remove the waiver in the light of moves to liberalize trade. Some members asked that the United States remove the remaining restrictions this year or at least by the end of the Kennedy Round of tariff negotiations. The working party members assumed Section 22 items were negotiable in the Kennedy Round, and that no further United States legislation would be needed to make possible the removal of the restrictions.

During the Plenary, several Contracting Parties raised basically the same questions and issues as in the Working Party. The United States Representative informed the Contracting Parties that he could not make predictions or promises as to when the United States could dispense with the waiver. He pointed out, however, that the United States has production controls for most products on which it maintains import restrictions. For dairy products, where production controls are not feasible, virtually all producing countries maintain some form of protection or support other than fixed tariffs. He stated that the Trade Expansion Act does not prohibit negotiations on items under Section 22 in the Kennedy Round and that the United States is prepared to enter negotiations on all relevant elements of its agricultural policy. United States concessions in the Kennedy Round, however, would depend on what other countries offer. New United States legislation might be necessary, depending on the nature of the commitments negotiated.

The Contracting Parties adopted the report of the Working Party.

VIII. PARTICIPATION IN THE GATT AND APPLICATION OF THE GATT

A. PROVISIONAL ACCESSION OF SWITZERLAND

The Declaration on Switzerland's provisional accession to the GATT calls for an annual report on import restrictions to be submitted to the Contracting Parties. The fourth such report was noted at the Twenty-First Session.

The Swiss Government stated that since its last report there has been no change in the legislative provisions concerning import restrictions nor in the restrictive systems or mechanisms applied to imports. Except for alcohol, the items involved are all agricultural products. The value of foreign agricultural products entering Switzerland has risen steadily for some years, reaching a total of 2.6 billion Swiss francs in 1964. On a per capita basis, Switzerland is the world's largest importer of foodstuffs and fodder.

In the plenary discussion, the United Kingdom delegate made a brief but strong statement expressing the hope that a formula could soon be found to permit full accession by Switzerland. The Executive Secretary characterized the fact that Switzerland is not a full Contracting Party as "Anomalous" in view of Switzerland's generally liberal trade policy. A solution will be sought in the Kennedy Round, and the Executive Secretary expressed the opinion that if the negotiations were protracted, serious thought should be given to clearing up this "special situation" at an earlier date.

B. RELATIONS WITH POLAND

Poland's association with contracting parties to GATT is governed by the Declaration of November 9, 1959, which calls for an annual review of trading relations. The third such review was undertaken by a working party in October 1964, and the report thereon was adopted with virtually no comment at the 22nd Session.

The report shows that Polish exports to GATT countries rose by 5 percent while imports declined slightly in 1963. The Polish representative explained that 1963 had been a difficult and nonrepresentative year for the Polish economy, but in any case his country had previously indicated that it would be necessary to reverse the trend of growing trade deficits with GATT countries. In 1963 this deficit was \$70 million or \$106 million if imports were valued on a c.i.f. basis. The working party found that Poland had fulfilled its obligations with regard to publication of its laws, regulations, etc. effecting its foreign commerce. No specific problems leading to consultations or discussions under the Declaration were reported.

In commenting on the report at the 22nd Session, the Polish representative stated that 1964 foreign trade data showed an increase in the share represented by contracting parties. He also called attention to the growth of imports from developing countries but noted that some less-developed GATT contracting parties discriminate against Polish trade. With regard to the future, the Polish spokesman declared that his country considered it essential to find a new basis for closer

relations with the Contracting Parties, but he did not pursue the question in the plenary meetings since it was under consideration in another body of GATT.

C. PROCEDURES FOR ACCESSION

The Contracting Parties made arrangements to establish working parties to proceed with the applications of five governments (Argentina, Iceland, Tunisia, United Arab Republic and Yugoslavia) which have indicated their desire to accede to the General Agreement and which have been granted provisional accession. The working parties are to take account of the work already accomplished in connection with the provisional accession of these countries and of the results of the applicants' participation in the Kennedy Round of trade negotiations. The working parties are to submit their recommendations to the Contracting Parties. This general procedure may also be followed for Ireland, which has expressed a desire to renew the discussion, begun in 1960, on the terms of its accession to the General Agreement.

D. NEWLY INDEPENDENT STATES

The time limit under which Algeria, Congo (Leopoldville), Mali and Rwanda are eligible to accede to the GATT under the provisions of Article XXVI:5 was extended to the close of the 23rd Session.

E. STATEMENTS BY REPRESENTATIVES OF NEW CONTRACTING PARTIES TO THE GATT

The representatives of four new contracting parties—Burundi, Gambia, Malawi, and Malta—made statements at the 22nd Session stressing their desire to work in full cooperation with the other contracting parties towards the achievement of the objectives of the GATT and their recognition that membership entailed obligations as well as rights on the part of all contracting parties.

The United States representative and others welcomed these states as contracting parties and expressed appreciation for the serious manner in which they intended to participate in the work of the GATT.

F. REPRESENTATION BY OBSERVERS OF THE REPUBLIC OF CHINA

The Chairman announced at the third plenary meeting that the Executive Secretary has arranged for the Republic of China to be represented by observers. He did so acting under Rule 8 of the Rules of Procedure which provides that governments which signed the Final Act of Havana, but were not contracting parties, could attend meetings as observers. The Government of China has signed the Final Act, he said.

The Chairman further stated that it was the policy of the Contracting Parties to avoid political controversies and to follow the policy expressed in Article 86 of the Havana Charter by avoiding passing judgment on essentially political matters. He noted that, consistent with the practice of the United Nations, the admission of observers did not prejudice the Contracting Parties or individual contracting parties on the subject of recognition of the government in question.

A number of representatives made brief statements to the effect that their governments did not recognize the government in question as the Government of China, but no effort was made to overrule the chairman. The United States was joined by several other countries in supporting the Chairman's ruling.

G. APPLICATION OF ARTICLE XXXV TO JAPAN

The application of Article XXXV to Japan was on the agenda of the 22nd Session as it has been since Japan's accession. Article XXXV permits non-application of the General Agreement by the contracting parties if they have not entered into tariff negotiations with each other and if, at the time either becomes a contracting party, they do not consent to extend the application of the General Agreement to each other.

Of the original fourteen contracting parties invoking Article XXXV at the time of Japan's accession in 1955, only three, Austria, Haiti, and South Africa continue to maintain this restriction. Thus the problem of the invocation of Article XXXV by Japan's developed trading partners has been generally solved. Japan's representative reported that since the Twenty-First Session, Australia, Belgium, the Netherlands, Luxembourg and Madagascar had withdrawn application of this Article to Japan.

On the other hand many newly independent less-developed countries had invoked Article XXXV against Japan. This was apparently in many cases a

legacy of the commercial policy of the former metropolitan states of these countries.

The representative of Indonesia pointed out that continued invocation of this Article was an anomaly inconsistent with the spirit of the GATT.

The representative of the United States welcomed the disinvocation of this article by many states and urged priority consideration of disinvocation be given by those states still applying Article XXXV to Japan.

Representatives of Malta and Nigeria, while indicating that they felt application of Article XXXV had done little harm to Japanese exports to their countries, nevertheless expressed the hope that it would be possible for their countries to disinvoke Article XXXV with respect to Japan at an early date.

H. DEFINITIVE APPLICATION OF THE GATT

Contracting parties still apply the GATT on a provisional basis. In the case of the United States and other original signatories, the pertinent legal instrument is the Protocol of Provisional Accession of October 30, 1947 which provides that the substantive provisions of the Agreement shall be implemented to the fullest extent not inconsistent with legislation existing on October 30, 1947. In the case of countries which acceded subsequently, the Agreement is applied to the fullest extent not inconsistent with legislation in effect on the date of the Protocol of their accession. The question of definitive acceptance was considered in detail in 1955 at which time the Contracting Parties adopted a resolution under which application of the GATT was to be shifted from a provisional to a definitive basis but acceptance under Article XXVI would be valid even if accompanied by a reservation in respect to Part II similar to that covering existing legislation in the Protocol of Provisional Accession. The principal legislative provisions covered by the reservation would be reported and the Contracting Parties would review annually progress made in bringing such legislation into conformity with the GATT. At the end of three years after the Agreement entered into force under Article XXVI, the Contracting Parties would review the situation with respect to reservations and make appropriate recommendations.

During the 22nd Session, this question was put on the agenda but gave rise to little substantive discussion. It was agreed that contracting parties should submit information on their current legislation which was not in conformity with the General Agreement so that the matter could be considered more fully during the 23rd Session.

I. STATUS OF PROTOCOLS

Several protocols drawn up in 1955 amending the text of the General Agreement have not yet entered into force due to the failure of the Government of Uruguay to accept them. In addition, a protocol on organizational amendments remains to be accepted by several contracting parties.

A decision was taken to extend the closing date for acceptance of these instruments until two weeks after the opening of the first ordinary Session in 1966. Contracting Parties which have not taken the necessary action on these protocols, as well as a number of others which are open but do not require unanimity, were urged to do so at an early date.

IX. COMMODITY TRADE

A. TRADE IN COTTON TEXTILES

The debate on the report of the Cotton Textile Committee (CTC) was characterized by the expectations of exporters that the major review of the Long Term Arrangement (LTA) and the Kennedy Round would together result in a considerable liberalization of international trade in cotton textiles. While criticisms of United States implementation of the LTA were not lacking, exporters coupled such criticisms with expressions of hope and confidence for the future.

The Executive Secretary, in his capacity of CTC Chairman introduced the report, which was a detailed record of the December 1964 review of the second LTA year. He said that the LTA represented a serious challenge to LDC efforts to expand export earnings and asked that the discussion of the report be regarded as an occasion for a serious search of conscience.

After the Chairman's summary, Jamaica, Japan, India, and Pakistan spoke at length in criticism of the United States, directly or by inference, for what they believed to be abuse of the LTA through the extensive resort to bilaterals, imposition of controls, misuse of the market disruption concept and indifference to the needs of less-developed countries to expand their exports. Other interventions

echoed this line. It was repeatedly stated that extension of the LTA in its present form would not be acceptable to exporters.

A call for a thorough study of the performance of major importing countries as manufacturers and importers was repeatedly sounded in discussion of the forthcoming major review. The exporting countries expressed their desires that the review be wide-ranging and their expectations that the review would promote, to their benefit, changes in the operation of the LTA and the patterns of trade. They expressed similar hopes for the outcome of the Kennedy round.

The United States stated that some of the matters introduced at the CTC meeting were under review in Washington, and that others would be the subject of secretariat study in preparation for the major review. The United States agreed that this review should be as broad as possible.

B. REPORTS BY COMMITTEE II ON AGRICULTURAL POLICIES

Under the program for the expansion of international trade, initiated in 1958, the Contracting Parties had appointed a committee to study the use by Contracting Parties of non-tariff measures for the protection of agriculture or in support of income for agricultural producers and the agricultural policies from which these measures derived. The Committee had been instructed to examine the effects of these measures on international trade and Contracting Parties had been invited to notify substantial changes in their agricultural policies. These notifications had been referred to Committee II for examination. The Committee had recently examined the changes in agricultural policies notified by the Six Member States of the European Economic Community and arising from the progressive implementation of the Common Agricultural Policy. The commodities concerned were dairy products, beef and veal and rice. The Committee had also examined changes notified by the United States resulting from import legislation regarding meat and by the United Kingdom concerning recent developments in agricultural policy relating to cereals and bacon.

Some delegations expressed concern over certain provisions of the European Economic Community regulations. In particular, reference had been made in this connection to the wide discretionary powers embodied in the Regulations; the refund system in connection with Article XVI; the safeguard clause in connection with Article XIX; the fact that the variable levy system insulated domestic producers from world prices; the levels at which future guide prices for beef and threshold and target prices for dairy products would be crucial to exporting countries in terms of obtaining access to EEC markets; and the uncertainty induced by the levy and import permit systems. A number of these points had been dealt with by the representative of the Community and in particular he had expressed the view that the fears of third country suppliers concerning the practical effects of the Common Agricultural Policy were not generally justified. In those cases where trade flows diminished they were compensated by increases in trade in other items. Some difference of opinion had arisen on whether the consultations held recently should be regarded as completed. The Chairman of the Contracting Parties stated it would seem appropriate to deal with this problem when a request for consultations was received.

With reference to the United States beef legislation, some countries expressed concern that the meat legislation was introduced at a time when trade liberalization was being discussed and asserted imports were not a factor in decreasing meat price in the United States markets. The United States pointed out the standby character of import limitations under this legislation, emphasizing that it is not anticipated that such limitations will be applied in the near future, and that the legislation contains provisions which will enable exporters to share in the growth of the United States market.

In the discussion on the United Kingdom's new policies for cereal and bacon, the United Kingdom pointed out that it will maintain full consultations with suppliers in connection with its agricultural policies.

At the close of the debate, the report of Committee II was adopted. Also adopted was a proposal that these reports be derestricted immediately since they contain information useful to the public.

C. IMPACT OF COMMODITY PROBLEMS UPON WORLD TRADE

In 1956, the Contracting Parties established a working party to review trends in developments in commodity trade. The Working Party has not met in recent years and there was only limited discussion on this item in the 22nd Session.

Some countries expressed an interest in the Contracting Parties receiving and reviewing reports on progress in regard to the handling of commodity problems,

for example, on experience with international commodity agreements as well as with various other approaches. They considered that a review of experience under such arrangements might be helpful in seeking solutions to related problems in regard to trade in other commodities.

There was some expression of interest in increased attention to commodity trade between the less-developed and industrial countries with specific mention of tropical products such as cocoa and tea.

D. DISPOSAL OF SURPLUS COMMODITIES

The Contracting Parties conduct an annual review of the disposal of commodity surpluses to assess experience under resolutions adopted in the 1954-55 session.

The items involved are primarily stockpile minerals and metals as well as agricultural products. Reports were submitted by several countries on operations during the past year. Less concern was shown than in recent years. Apparently, this was partly due to improved procedures for consultations with other interested exporters.

General approval was expressed with regard to the United States policy and procedures of consultation with other interested exporters. However, some countries expressed concern that disposal of surpluses and sales under unusually long-term credit might damage their trade or lessen their prospects for developing trade with certain areas with which they historically have not had trade but with which there might be a potential for future development. It was noted that disposal programs should not be used to encourage production for disposal under special concessional sales terms.

X. UNITED STATES-CANADA AUTOMOTIVE PRODUCTS TRADE AGREEMENT

At the request of the United States and Canada, the Chairman circulated the text of the United States-Canadian Automotive Agreement of January 16, 1965. In view of the complexity of the agreement, he proposed and it was agreed to establish a working party "to examine the Canada/United States Agreement * * * and any aspects of that Agreement relative to the General Agreement, and report to the Contracting Parties".

The Working Party met several times during the Session and presented a report at the final plenary meeting of the Contracting Parties. The report of the Working Party contained a description and explanation of various provisions of the Agreement. It also recorded a number of questions by members of the Working Party and replies by the representatives of the United States and Canada with respect to the relationship between the Automotive Agreement and the GATT and regarding the possible effects on the trade interests of third countries. The report noted a consensus of views that the United States would be required to seek a waiver from Article I of the GATT if it did not implement the Agreement on a most-favored-nation basis.

Finally, the United States representative indicated that the question of a waiver was premature since legislation had not yet been presented to the Congress. He said that a decision with regard to a request for a waiver would be made during the course of the legislative proceedings and that careful consideration would be given to the views expressed in the Working Party.

XI. NEGOTIATIONS UNDER ARTICLE XXVIII:1

In 1963, a number of contracting parties notified their intention to enter into negotiations under the provisions and procedures of paragraph 1 of Article XXVIII for the modification or withdrawal of certain concessions in their schedules. Such negotiations in accordance with Article XXVIII:1, should have been concluded before 1 January 1964. This time limit was previously twice extended.

As some contracting parties continue to require time in which to complete negotiations, the Contracting Parties at the 22nd Session, at the suggestion of the Chairman, further extended the time limit to 31 December 1965.

The United States is involved in such negotiations with South Africa, Australia, and Finland, which countries are attempting to negotiate items in their schedules.

XII. RECOURSE TO ARTICLE XXIII BY URUGUAY

A Panel was established by the Council in February, 1962, to examine cases referred to it by the Government of Uruguay in accordance with provisions of paragraph 2 of Article XXIII. The Panel had submitted two reports which had been examined by the Council which had recommended their adoption by

the Contracting Parties. The Council also recommended renewal of the procedure authorizing the Panel to deal promptly with any Uruguayan proposal to suspend concessions or obligations as compensation for nullification or impairment arising from the continued maintenance of trade barriers. A report on action taken by the countries concerned regarding certain trade barriers which were examined by the Panel has been distributed.

The Uruguayan representative welcomed the spirit of goodwill and cooperation on the part of the contracting parties concerned and reported some progress has been achieved in removing certain restrictions which had been called in question by Uruguay. He pointed out, however, that there remained uncompensated damage which was causing hardship to the Uruguayan economy—a situation which, in Uruguay's view, illustrates the weakness of Article XXIII.

The Contracting Parties adopted the reports of the Panel and agreed to the renewal of the procedure recommended in the Panel's first report.

XIII. ADMINISTRATIVE MATTERS

A. POSITION OF DIRECTOR GENERAL ESTABLISHED

In accordance with the increasing importance of the GATT, the Contracting Parties changed the title of the Executive Secretary to that of Director General.

At the same time, the Chairman expressed for the Contracting Parties their appreciation for the nearly twenty years of devoted and skilled service rendered by Mr. Eric Wyndham White, Executive Secretary during the entire period since the establishment of the General Agreement.

B. ADMINISTRATIVE AND FINANCIAL QUESTIONS

The Session approved the final 1964 budget position and assessments of additional contributions for 1964 and 1965 as well as advances to the working capital fund involving three contracting parties. A cost of living increase in salaries of general service category employees of the Secretariat was also passed. Proposed changes regarding the base used for pensionable income of Secretariat staff met with no objection. This change will bring GATT practice into line with that of the United Nations.

The major new budget item involved adoption of recommendations to increase the 1965 budget for the International Trade Center by \$70,000, of which \$16,750 will be non-recurring expenses. A major portion of this increase relates to an authorized addition of four professional and six clerical positions required to carry out the expansion of activities recommended by the Experts Group on Trade Information and Trade Promotion. The Secretariat will try to cover the larger expenditures for the Center's operations from savings elsewhere in the budget, and to the extent this is not possible withdrawals will be made from the Working Capital fund.

The Chairman called attention to the fact that, though a number of contracting parties had met their outstanding obligations, there remained some contributions in arrears and stressed such arrears should be cleared up as soon as possible.

C. PROGRAMME OF MEETINGS

A program of meetings through July 30, 1965 was adopted for various sub-groups. These included a meeting of the Committee on Balance-of-Payments Restrictions on May 5-14, 1965, as well as, a number of meetings for sub-groups and working parties established by the Committee on Trade and Development. The date for the 23rd Session of the Contracting Parties was set for March 1-25, 1966.

D. ELECTION OF OFFICERS

The following slate was elected to serve until the end of the 23rd Session: Chairman of the Contracting Parties, Julio A. Lacarte, Uruguay; 1st Vice Chairman, Georges Bresson, Upper Volta; 2nd Vice Chairmen, K. L. Press, New Zealand, and R. Rothschild, Belgium; Chairman of the Council, N. V. Skak-Nielsen, Denmark; Chairman of the Committee on Trade and Development, K. B. Lall, India.

An effort was made by Indonesia in a meeting of the ad hoc nominating committee and later in the Heads of Delegation meeting, to add the position of Vice Chairman of the Council. After opposition was expressed by some heads of delegations, the matter was left to the Council to decide if it wished a vice chairman.

ANNEX A

AGENDA OF THE 22ND SESSION

(Adopted by the Contracting Parties on 2 March 1965)

1. Adoption of agenda
2. Trade of less-developed countries
 - Report by Committee on Trade and Development
3. Trade information and trade promotion advisory services
 - Report by Expert Group
4. Balance-of-payments import restrictions
 - Reports on consultations with:

Brazil	Israel
Ceylon	New Zealand
Finland	Pakistan
Ghana	South Africa
Greece	Spain
India	
5. Residual import restrictions
 - Review of notifications
6. Trade in cotton textiles
 - Report by Cotton Textiles Committee
7. Agricultural policies
 - Reports by Committee II
8. Impact of commodity problems upon international trade
 - Annual review, under the Resolution of 17 November 1965, of trends and developments in international commodity trade
9. Disposal of commodity surpluses
10. European Economic Community
 - (a) Information to be furnished by the representative of the Commission
 - (b) Agreement of association with Turkey—report by Working Party
 - (c) Convention of association with African and Malagasy States—report by Working Party
 - (d) Association of overseas territories
11. European Free Trade Association and the Association Agreement With Finland
 - Information to be furnished by the member States
12. Latin American Free Trade Area
 - Information to be furnished by the member States
13. Central American Free Trade Area and Nicaragua-El Salvador Free Trade Area
 - Report by Nicaragua under Decisions of 13 November 1956 and 25 October 1951
14. Equatorial Customs Union/Cameroon
 - Information to be furnished by the member States
15. United States/Canada Agreement on Automotive Parts
16. Article XVIII
 - Annual review under paragraph 6
17. Article XX (j)
 - Review of the need for this sub-paragraph
18. Consular formalities
 - Reports by governments
19. Provisional accession of Switzerland
 - Report by Switzerland under paragraph 1(b) of the Declaration of 22 November 1958
20. Relations with Poland
 - Report on third review under Declaration of 9 November 1959
21. Recourse to article XXIII by Uruguay
 - Reports by Panel
22. United Kingdom temporary import charges
 - Report by Working Party
23. Chilean import restrictions and surcharges
 - (a) Consultation on Balance-of-Payments Restrictions
 - (b) Request for a further extension of the Decision of 27 May 1959
24. Uruguayan import surcharges
 - Request for waiver

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25. Peruvian schedule
Report by Working Party
 26. Uruguayan schedule
Adjustment of Aforos
 27. Reports under waivers
 - (a) Australia/Papua-New Guinea
 - (b) Rhodesia and Nyasaland/United Kingdom territories
 - (c) United States import restrictions
 28. Application of article XXXV to Japan
 29. Procedures for accession
Recommendations by Council
 30. Newly-independent states
Review of status of territories applying the GATT on a *de facto* basis
 31. Protocol introducing part IV
Authentication of Spanish text
 32. Status of protocols
 33. Regional liaison arrangements
Report by Working Party
 34. Training programme and technical assistance
Report by the Executive Secretary
 35. Definitive application of the GATT
Proposal by the Executive Secretary
 36. South Africa/Rhodesia trade relations
 37. Administrative and financial questions
 - (a) Assessment of additional contributions
 - (b) Final 1964 budget position
 38. Programme of meetings for 1965
 39. Election of officers
 40. Arab Common Market
 41. Ceylon—Temporary duty increases
Request for extension of the Decision of 15 November 1962
- New item. Negotiations under article XXVIII:1

ANNEX B

GATT MEMBERSHIP: PRESENT STATUS

1. *Contracting parties to the GATT (66)*

Australia	Japan
Austria	Kenya
Belgium	Kuwait
Brazil	Luxembourg
Burma	Madagascar
Burundi	Malawi
Cameroon	Malaysia
Canada	Malta
Central African Republic	Mauritania
Ceylon	Kingdom of the Netherlands
Chad	New Zealand
Chile	Nicaragua
Congo (Brazzaville)	Niger
Cuba	Federation of Nigeria
Cyprus	Norway
Czechoslovakia	Pakistan
Dahomey	Peru
Denmark	Portugal
Dominican Republic	Rhodesia
Finland	Senegal
France	Sierra Leone
Gabon	South Africa
Gambia	Spain
Federal Republic of Germany	Sweden
Ghana	Tanzania
Greece	Togo
Haiti	Trinidad and Tobago
India	Turkey
Indonesia	United Kingdom of Great Britain and Northern Ireland
Israel	United States of America
Italy	Upper Volta
Ivory Coast	Uruguay
Jamaica	

2. *Countries which have acceded provisionally (6)*

Argentina	Tunisia
Iceland	United Arab Republic
Switzerland	Yugoslavia

3. *Countries which participate in the work of the Contracting Parties under special arrangements (2)*

Cambodia ¹	Poland
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4. *Countries to whose territories the GATT has been applied and which now, as independent States, maintain a de facto application of the GATT pending final decisions as to their future commercial policy (5)*

Algeria	Rwanda
Congo (Léopoldville)	Zambia
Mali	

5. *Countries represented by observers (15)*

Republic of China	Lebanon
Colombia	Liberia
Guatemala	Libya
Honduras	Mexico
Iran	Philippines
Iraq	Rumania
Ireland	Saudi Arabia
Korea	

¹ Cambodia is expected to accede in 1965.

6. *Intergovernmental organizations represented by observers*

Council of Europe	International Bank for Reconstruction and Development
European Coal and Steel Community	International Labor Organization
European Economic Community	International Monetary Fund
(1) Commission	Organization of American States
(2) Council of Ministers	Organization for Economic Cooperation and Development
European Free Trade Association	United Nations, Economic Commission for Europe
Food and Agricultural Organizations of the United Nations	

ANNEX C

UNITED STATES DELEGATION TO THE 22ND SESSION

Chairman and United States Representative

The Honorable John W. Evans, Minister for Economic Affairs, United States Mission to the International Organizations in Geneva

Deputy United States Representative

Mr. Herbert F. Propps, United States Mission to the International Organizations in Geneva

Advisers

Mr. James W. Birkhead, Foreign Agricultural Service, United States Mission to the International Organizations in Geneva
Mr. Bernard Blankenheimer, Director, African Division, Bureau of International Commerce, Department of Commerce
Mr. William Boggs, United States Mission to the European Communities, Brussels
Mr. Robert R. Brungart, Assistant Chief, General Commercial Policy Division, Department of State
Mr. Edgar Eaton, Assistant Manpower Administrator (TAA), Department of Labor
Mr. Julius L. Katz, Director, Office of International Trade, Department of State
Mr. John I. Kross, Agricultural Attaché, United States Mission to the International Organizations in Geneva
Mr. Richard L. Mattheisen, Director, General Commercial Policy Staff, Trade and Commercial Policy Division, Bureau of International Commerce, Department of Commerce
Mr. C. Hoyt Price, Counselor, United States Mission to the European Communities, Brussels
Mr. Claus W. Ruser, Chief, Fibers and Textiles Division, Office of International Resources, Department of State
Mr. Murray Ryss, International Economist, Office of International Economic Activities, Department of the Treasury
Mrs. Doris S. Whitnack, United States Mission to the International Organizations in Geneva
Mr. Leonard U. Wilson, United States Mission to the International Organizations in Geneva
Mr. Oscar Zaglitz, United States Mission to the International Organizations in Geneva

Technical Secretary

Mr. Shepard C. Lowman, General Commercial Policy Division, Department of State

Secretary of Delegation

Mr. Joseph D. Capri, Conference Attaché, United States Mission to the International Organizations in Geneva

Staff

Miss Barbara Babcock
Miss Lea Sestini
Mrs. Ollie Arundale
Miss Millie Tangny

